

OFFICIAL STATEMENT DATED NOVEMBER 12, 2014

NEW ISSUE-BOOK-ENTRY-ONLY

**Ratings: AGM Insured: S&P “AA” (Stable Outlook); Moody’s Underlying “Baa3”  
See “MUNICIPAL BOND RATINGS” AND “BOND INSURANCE”.**

*In the opinion of Bond Counsel, the Bonds are valid obligations of the District. In the opinion of Special Tax Counsel, interest on the Bonds is excludable from gross income for purposes of federal income taxation under statutes, regulations, published rulings and court decisions existing on the date of such opinion, subject to the matters described under “Tax Matters” herein, including the alternative minimum tax on corporations. See “Legal Matters” and “Tax Matters” herein for a discussion of the opinions of Bond Counsel and Special Tax Counsel.*

*THE DISTRICT HAS DESIGNATED THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS. See “TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions” herein.*

**\$2,000,000**

**Lakeside Municipal Utility District No. 3**

**(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)**

**UNLIMITED TAX BONDS, SERIES 2014**

**Dated: December 1, 2014**

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

Interest on the Lakeside Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2014 (the “Bonds”) will accrue from December 1, 2014, is payable March 1, 2015 and each September 1 and March 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 (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent”). The Bonds are obligations solely of Lakeside Municipal Utility District No. 3 (the “District”) and are not obligations of the City of Pflugerville, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** 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 all taxable property within the District. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by Freeman & Corbett, Austin, Texas, Bond Counsel, and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about December 11, 2014 in Austin, Texas.

**MATURITIES**  
**(Due September 1)**

<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate <sup>(a)</sup></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 <sup>(a)</sup></b>	<b>Initial Reoffering Yield <sup>(b)</sup></b>	<b>CUSIP Number <sup>(c)</sup></b>
2015	\$ 5,000	3.000%	0.750%	512185EG0	2018	\$ 5,000	3.000%	1.500%	512185EK1
2016	5,000	3.000%	1.000%	512185EH8	2019	5,000	3.000%	2.000%	512185EL9
2017	5,000	3.000%	1.150%	512185EJ4					
	\$100,000	3.250% <sup>(a)</sup>			Term Bond Due September 1, 2023 <sup>*</sup>	Yield <sup>(b)</sup> 2.800%			CUSIP # 512185EQ8 <sup>(c)</sup>
	\$100,000	3.250% <sup>(a)</sup>			Term Bond Due September 1, 2025 <sup>*</sup>	Yield <sup>(b)</sup> 3.000%			CUSIP # 512185ES4 <sup>(c)</sup>
	\$300,000	3.250% <sup>(a)</sup>			Term Bond Due September 1, 2029 <sup>*</sup>	Yield <sup>(b)</sup> 3.350%			CUSIP # 512185EW5 <sup>(c)</sup>
	\$350,000	3.375% <sup>(a)</sup>			Term Bond Due September 1, 2032 <sup>*</sup>	Yield <sup>(b)</sup> 3.550%			CUSIP # 512185EZ8 <sup>(c)</sup>
	\$1,125,000	3.625% <sup>(a)</sup>			Term Bond Due September 1, 2034 <sup>*</sup>	Yield <sup>(b)</sup> 3.625%			CUSIP # 512185FB0 <sup>(c)</sup>

- \* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2023 in whole or from time to time in part, on September 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. The Bonds maturing September 1, 2023, September 1, 2025, September 1, 2029, September 1, 2032 and September 1, 2034 (collectively, the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.26% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.678704%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from December 1, 2014 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**ASSURED GUARANTY MUNICIPAL CORP. ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM 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 AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX D - 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 Financial Advisor, for further information.

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

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR 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

### Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of Raymond James & Associates, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.26% of par plus accrued interest to date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

### Prices and Marketability

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

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

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

### Securities Laws

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

## MUNICIPAL BOND RATINGS

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 Assured Guaranty Municipal Corp. ("AGM" 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 "Baa3" 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, Assured Guaranty Municipal Corp. ("AGM") 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.

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### *Current Financial Strength Ratings*

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### *Capitalization of AGM*

At June 30, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,654 million and its net unearned premium reserve was approximately \$1,850 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

*Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (filed by AGL with the SEC on February 28, 2014);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014 (filed by AGL with the SEC on May 9, 2014); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014 (filed by AGL with the SEC on August 8, 2014).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

*Miscellaneous Matters*

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE".

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## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

- The District ..... Lakeside Municipal Utility District No. 3 (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), effective September 1, 2005, and confirmed pursuant to an election held within the District on November 8, 2005. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. See “THE DISTRICT – General.”
- Location ..... The District, which encompasses approximately 283 acres of land, is located predominately in northeast Travis County with a small portion located in southeast Williamson County and lies approximately five miles northeast of downtown of the City of Pflugerville, Texas. The District is located north of and adjacent to Rowe Lane, approximately one mile east of FM 685 North on State Highway 130 Toll Road, an approximately 49 mile toll road that currently extends from north of Georgetown to Seguin, Texas and Interstate Highway 10 (“SH 130”), and is contained entirely within the extraterritorial jurisdiction of the City of Pflugerville, Texas. See “THE DISTRICT – Location.”
- The Developer ..... The Developer currently active within the District is The Commons at Rowe Lane, L.P. (the “Commons” or the “Developer”), a Texas limited partnership comprised of: (i) Rowe Commons Corporation, a Texas corporation which serves as General Partner; (ii) CH Realty III/Rowe, L.P., a Texas limited partnership and affiliate of Crow Realty Investors, L.P.; (iii) James R. Harris, individual, as a class A limited partner; (iv) Lee Nicol, individual, as a class A limited partner; and (v) Commons Development Partners, a class B limited partner and a Texas general partnership comprised of James R. Harris, Lee Nicol, James B. Haddock and Joseph W. Straub. The Commons was formed February 7, 2005 for the sole purpose of acquiring and developing the property located within the boundaries of the District as the single family residential subdivision of The Commons at Rowe Lane. Additionally, there are approximately 71 acres within the District which are not owned by the Developer. The 71 acres within the District that is not owned by the Developer was purchased by Rowe Lane, LLC, a Texas limited liability company, and simultaneously conveyed to Rowe Lane 285, L.P. (“Rowe Lane”), a Texas limited partnership, on February 18, 2014. Rowe Lane was formed on February 5, 2014 for the sole purpose of acquiring and developing the 71 acres within the District as a portion of the single family residential subdivision of The Commons at Rowe Lane. Rowe Lane is comprised of: (i) Rowe Lane 285 GenPar, LLC, a Texas limited liability company, which serves as General Partner; (ii) United Development Funding, L.P., a Delaware limited partnership, the sole member of Rowe Lane 285 GenPar, LLC; and (iii) United Development Funding, Inc., a Delaware corporation, the General Partner of United Development Funding, L.P. In addition to simultaneously purchasing and selling the 71 acres, Rowe Lane, LLC, is providing development management services to Rowe Lane. Rowe Lane, LLC is comprised of (i) James R. Harris, individual, as a member and manager; and (ii) Joseph W. Straub, individual, as a member and manager. Rowe Lane, LLC is providing consulting services only and will not be a signatory to any contracts relating to development of the 71 acres and will not be entitled to receive any bond proceeds relating to the 71 acres. See “THE DEVELOPER – Description of Developer” and “THE DISTRICT – Current Status of Development.”
- Status of Development ..... Of the approximately 283 acres within the District, approximately 240 are developable under current land development and water quality regulations. As of October 1, 2014, approximately 216 acres (or 91.04% of the approximately 240 developable acres within the District) have been or are being developed with utility facilities as the single family residential subdivision Commons at Rowe Lane, Section I (66.36 acres, platted as 180 single family lots), Section II-A (14.14 acres, platted as 46 single family lots), Section II-B (20.45 acres; platted as 61 single family lots), Section III-A (13.77 acres; platted as 50 single family lots), Section II-C (9.74 acres; platted as 45 single family lots), Section III-B (24.50 acres; platted as 38 single family lots), and Section IV-A (17.42 acres; platted as 65 single family lots) encompassing a total of 485 single family lots, which includes 414 completed homes, 24 homes under construction (of which 19 are under contract to a homebuyer), and 47 vacant single family lots. Additionally, the development of utility facilities to serve the Commons at Rowe Lane, Section VII (21.51 acres; platted as 61 single family lots) began in May 2014 and is expected to be completed by December 2014 and development of utility facilities to serve the Commons at Rowe Lane, Section V-A (14.10 acres; platted as 57 single family lots) and the Commons at Rowe Lane, Section VI-A (14.04 acres; platted as 55 single family lots) will begin in November 2014 and are expected to be completed by April 2015. The District also includes an amenity center, totaling 7,500 square feet on 2.26 acres,

which includes an adult pool, children’s pool, volleyball court, sport court, playground, park, and hike and bike trails. See “THE DISTRICT – Current Status of Development.”

Homebuilders ..... According to the Developer, there are currently two homebuilders active within the District: Gehan Homes, Ltd. (“Gehan”) and Brohn Homes, Ltd. (“Brohn”). The Developer has also represented that the homes within the District are being constructed on two lot sizes (55’ and 65’) and range in price from \$244,990 to \$346,990, with square footage ranging from 1,793 to 3,993. See “THE DEVELOPER.”

**THE BONDS**

Description ..... The Bonds in the aggregate principal amount of \$2,000,000 mature serially in varying amounts on September 1 of each year from 2015 through 2019 and as Term Bonds which mature September 1, 2023, September 1, 2025, September 1, 2029, September 1, 2032 and September 1, 2034, as set forth on the inside cover page hereof . Interest accrues from December 1, 2014 at the rates per annum set forth on the inside cover page hereof and is payable March 1, 2015 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."

Redemption ..... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2023, in whole or from time to time in part, on September 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. The Bonds maturing September 1, 2023, September 1, 2025, September 1, 2029, September 1, 2032 and September 1, 2034 are also subject to mandatory sinking fund 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 Pflugerville, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record ..... The Bonds constitute the fifth installment of new money bonds issued by the District. The District has also issued one installment of refunding bonds. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds entitled “\$1,675,000 Lakeside Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2008” (the “Series 2008 Bonds”); “\$1,325,000 Lakeside Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2010” (the “Series 2010 Bonds”); “\$1,725,000 Lakeside Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2012” (the “Series 2012 Bonds”); “\$2,745,000 Lakeside Municipal Utility District No. 3 Unlimited Tax Refunding Bonds, Series 2013 (the “Series 2013 Bonds”); and “\$2,250,000 Lakeside Municipal Utility District No. 3 Unlimited Tax Bonds, Series 2013A (the “Series 2013A Bonds”), (collectively, the “Outstanding Bonds”). The proceeds of the outstanding new money bonds included up to 24 months of capitalized interest. See "FINANCIAL STATEMENT – Outstanding Bonds."

Authority for Issuance ..... The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended, a bond election held within the District on November 8, 2005, approving the issuance of bonds, the approving Order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”) and pursuant to a Resolution (the “Bond Resolution”) adopted by the Board of Directors of the District on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."

Use of Proceeds ..... The proceeds of the Bonds will be used to finance the District’s share of the costs for the following projects: (i) water impact fees to Manville Water Supply Corporation (“MWSC”); (ii) wastewater impact fees to City of Pflugerville; and (iii) water, wastewater and drainage facilities serving Commons at Rowe Lane, Phases II-C and IV-A.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months’ interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest, and (iv) pay certain costs associated with the issuance of the Bonds. SEE “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Bonds Authorized But Unissued ..... At an election held within the District on November 8, 2005, the voters within the District approved the issuance of \$55,500,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have issued \$8,975,000 in bonds and will have \$46,525,000 remaining in authorized but unissued bonds. The Comprehensive Development Agreement with the City of Pflugerville

limits the amount of bonds that can be issued to reimburse the Developer to \$25,775,000 plus a reasonable adjustment for inflation. See “The District – Comprehensive Development Agreement.” Additionally, at an election held in the District on November 8, 2005, the voters within the District approved the issuance of \$3,975,000 in unlimited tax bonds for the acquisition and construction of parks and recreational facilities, all of which 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 Assured Guaranty Municipal Corp. (“AGM” 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 “Baa3” to the Bonds.

**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.”

Bond Counsel ..... Freeman & Corbett, Austin, Texas.

Special Tax Counsel..... McCall, Parkhurst & Horton L.L.P., Dallas, Texas.

Disclosure Counsel ..... McCall, Parkhurst & Horton L.L.P., Austin, Texas.

General Counsel ..... Armbrust & Brown, PLLC, Austin, Texas.

Financial Advisor ..... Public Finance Group LLC, Austin, Texas.

Engineer..... Gray Engineering, Inc., Austin, Texas

**INVESTMENT CONSIDERATIONS**

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

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

2014 Certified Assessed Valuation		\$ 92,864,997 <sup>(a)</sup>
Estimated Assessed Valuation as of October 1, 2014		101,333,126 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		\$ 8,900,000 <sup>(c)</sup>
Ratio of Gross Debt to 2014 Certified Assessed Valuation		9.58%
Ratio of Gross Debt to Estimated Assessed Valuation as of October 1, 2014		8.78%
2014 Tax Rate		
	Debt Service	\$ 0.5212
	Maintenance	0.3563
	<b>Total 2014 Tax Rate</b>	<u>\$ 0.8775</u> <sup>(d)</sup>
Debt Service Fund Balance (as of November 12, 2014)		\$ 166,177 <sup>(e)</sup>
Percentage of current tax collections (Tax Years 2006-2013)		99.36% <sup>(f)</sup>
Percentage of total tax collections (Tax Years 2006-2013)		99.86% <sup>(f)</sup>
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2034, inclusive)		\$ 645,663
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.74 /\$100 AV
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of October 1, 2014 at 95% collections		\$ 0.68 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2034)		\$ 699,469
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.80 /\$100 AV
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of October 1, 2014 at 95% collections		\$ 0.73 /\$100 AV
Number of active connections as of October 1, 2014		
Single Family	414	
Single Family - Builder	<u>24</u>	
	<b>Total Number of Active Connections</b>	<b>438</b>
Estimated Population as of October 1, 2014		1,449 <sup>(g)</sup>

- (a) Assessed valuation of the District as of January 1, 2014 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated Assessed Valuation as of October 1, 2014, as provided by TCAD (and added to the certified assessed valuation as of January 1, 2014 provided by WCAD), is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by TCAD and WCAD.
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.8775 at its meeting in September 2014.
- (e) Unaudited as of November 12, 2014. Does not include approximately twenty-four months' capitalized interest (\$147,148) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Resolution 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**

**\$2,000,000**

**Lakeside Municipal Utility District No. 3**

**(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)**

**UNLIMITED TAX BONDS, SERIES 2014**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Lakeside Municipal Utility District No. 3 (the "District") of its \$2,000,000 Unlimited Tax Bonds, Series 2014 (the "Bonds").

The Bonds are issued pursuant to a resolution (the "Bond Resolution") adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to the Constitution and general laws of the State of Texas (the "State") including Chapters 49 and 54 of the Texas Water Code, as amended, the bond election approved by the voters within the District on November 8, 2005, and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission").

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District, its finances and the Developer. 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 Cave Road, Building 3, Suite 315, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement will be submitted to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" and "OFFICIAL STATEMENT – Updating Official Statement During Underwriting Period" for a description of the District undertaking to provide certain information on a continuing basis.

**THE BONDS**

**General Description**

The Bonds will bear interest from December 1, 2014 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on March 1, 2015 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only 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 District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2023, in whole or from time to time in part, on September 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.

**Mandatory Sinking Fund Redemption** . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2023, September 1, 2025, September 1, 2029, September 1, 2032 and September 1, 2034 are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

<b>\$100,000 Term Bond Maturing September 1, 2023</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2020	\$ 25,000
2021	25,000
2022	25,000
2023*	25,000

<b>\$100,000 Term Bond Maturing September 1, 2025</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2024	\$ 50,000
2025*	50,000

<b>\$300,000 Term Bond Maturing September 1, 2029</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2026	\$ 75,000
2027	75,000
2028	75,000
2029*	75,000

<b>\$350,000 Term Bond Maturing September 1, 2032</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2030	\$ 75,000
2031	75,000
2032*	200,000

<b>\$1,125,000 Term Bond Maturing September 1, 2034</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2033	\$ 450,000
2034*	675,000

\* Stated Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date: (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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

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

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

**DTC Redemption Provision**

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

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

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

**Payment** . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the “Designated Payment/Transfer Office”). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal 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 Resolution relating to the replacement Bonds are exclusive and to the extent lawful, preclude all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

### **Authority for Issuance**

At an election held within the District on November 8, 2005, the voters within the District authorized the issuance of \$55,500,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have issued \$8,975,000 in bonds and will have \$46,525,000 remaining in authorized but unissued bonds. The Comprehensive Development Agreement with the City of Pflugerville limits the amount of bonds that can be issued to reimburse the Developer to \$25,775,000 plus a reasonable adjustment for inflation. See “The District – Comprehensive Development Agreement.” The Bonds are issued pursuant to the terms and provisions of the Bond Resolution, Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by the TCEQ.

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

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond Resolution 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 Resolution provides for the termination of the pledge of taxes when and if the City of Pflugerville 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 of Pflugerville, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any political subdivision or entity other than the District.

### **Payment Record**

The Bonds constitute the fifth installment of new money bonds issued by the District. The District has also issued one installment of refunding bonds. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds entitled "\$1,675,000 Lakeside Municipal Utility District No. 3, Unlimited Tax Bonds, Series 2008" (the "Series 2008 Bonds"); "\$1,325,000 Lakeside Municipal Utility District No. 3, Unlimited Tax Bonds, Series 2010" (the "Series 2010 Bonds"); "\$1,725,000 Lakeside Municipal Utility District No. 3, Unlimited Tax Bonds, Series 2012" (the "Series 2012 Bonds"); "\$2,745,000 Lakeside Municipal Utility District No. 3, Unlimited Tax Refunding Bonds, Series 2013 (the "Series 2013 Bonds"); and "\$2,250,000 Lakeside Municipal Utility District No. 3, Unlimited Tax Bonds, Series 2013A (the "Series 2013A Bonds" and, collectively, the "Outstanding Bonds"). The proceeds of the outstanding new money bonds included up to 24 months of capitalized interest.

### **Flow of Funds**

The Bond Resolution creates, or affirms creation, establishment and maintenance by the District of, a Capital Projects Fund and a Debt Service Fund for the Bonds. The Bond Resolution requires that the District deposit to the credit of the Debt Service Fund (1) from the delivery of the Bonds to the Initial Purchaser, the amount received from proceeds of the Bonds representing accrued and capitalized interest on the Bonds, (2) 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 (3) such other funds as the Board shall, at its option, deem advisable. The Bond Resolution 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.

### **Defeasance of Outstanding Bonds**

*General* . . . The Bond Resolution provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Resolution 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 Resolution (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 Resolution 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 Resolution.

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 Resolution.

For purposes of these provisions, "Defeasance Securities" means (1) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) 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, (3) 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 (4) any other then authorized securities or obligations under applicable Texas 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 with amounts deposited to defease the Bonds. Because the Bond Resolution 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.

**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.

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

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of 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 Resolution 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. On November 8, 2005, voters within the District authorized the issuance of unlimited tax bonds in the principal amount of \$55,500,000 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. Following the issuance of the Bonds, the District will have issued \$8,975,000 in bonds and \$46,525,000 in unlimited tax bonds authorized by the District voters will remain authorized but unissued, however, pursuant to the Comprehensive Development Agreement with the City of Pflugerville the District is limited to the issuance of \$25,775,000 in bonds (adjusted for inflation) to reimburse the Developer. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds" and "THE DISTRICT – Comprehensive Development Agreement." Additionally, at an election held in the District on November 8, 2005, the voters within the District approved the issuance of \$3,975,000 in unlimited tax bonds for the acquisition and construction of parks and recreational facilities, all of which remain authorized but unissued. Neither Texas Law nor the Bond Resolution imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

According to the District's engineer, the \$25,775,000 in principal amount of bonds authorized to be issued pursuant to the Comprehensive Development Agreement, should be sufficient to reimburse the developer for the development within the District. After the issuance of the Bonds, the District will have \$46,525,000 remaining authorized but unissued pursuant to the November 8, 2005 bond election plus the \$3,975,000 of unlimited tax bonds for parks and recreational facilities. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue refunding bonds, as well as revenue bonds and notes without voter approval. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules

regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

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

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a 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 Resolution 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 Resolution 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 Resolution 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 Resolution, 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 Resolution 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 Resolution 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 Resolution 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 Resolution, 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 Resolution 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 within the extraterritorial jurisdiction of the City of Pflugerville, Texas. Under Texas law without the consent of the District, the City of Pflugerville cannot annex territory within a district unless it annexes the entire district. If the City of Pflugerville does annex the District, the City of Pflugerville will assume the District's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by the City of Pflugerville is a policy-making matter within the discretion of the City Council of the City of Pflugerville and therefore, the District makes no representation that the City of Pflugerville will ever annex and dissolve the District and assume its debt.

## **Alteration of Boundaries**

In certain circumstances under State law, the District may alter its boundaries to, upon satisfying certain conditions, (i) annex additional territory; and (ii) exclude land subject to taxation within the District that is not served by District facilities. No representation is made concerning the likelihood that the District would effect any further change in its boundaries.

## **Approval of the Bonds**

The TCEQ approved the issuance of the Bonds by an order signed on October 6, 2014 (the "TCEQ Order"). Any person affected by the TCEQ Order has 30 days from the date of such order (i.e. until November 5, 2014) to file a petition to review, set aside, modify or suspend the act of the TCEQ approving the Bonds and the project. Additionally any person may file a motion to overturn the TCEQ Executive Director's approval of the District's application within 23 days of the mailing or hand delivery of the TCEQ Order. The TCEQ Order was mailed or hand delivered on October 9, 2014, and the 23 day period expired on November 1, 2014.

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 Resolution**

The District may, without the consent of or notice to any registered owners, amend the Bond Resolution 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 Resolution, 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.*

The Depository Trust Company ("DTC"), New York, New York, 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.

### USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the District's share of the costs for the following projects: (i) water impact fees to Manville Water Supply Corporation ("MWSC"); (ii) wastewater impact fees to City of Pflugerville; and (iii) water, wastewater and drainage facilities serving Commons at Rowe Lane, Phases II-C and IV-A. In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest; and (iv) pay certain costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds are set forth below. Of the proceeds to be received from the sale of the Bonds, \$1,467,709 is required for construction costs, and \$532,291 is required for non-construction costs, including \$147,148 of capitalized interest (approximately 24 months of interest at an interest rate of 3.678704%). See "Comprehensive Development Agreement" regarding the reimbursement of bond proceeds to the Developer.

#### Construction Costs

##### A. Developer Contribution Items

1. Commons at Rowe Lane, Phase II-C		
a. Water	\$	82,171
b. Wastewater		86,676
c. Drainage		88,689
d. Excavation		19,697
Subtotal	\$	277,233
2. Commons at Rowe Lane, Phase IV-A		
a. Water	\$	223,591
b. Wastewater		191,583
c. Drainage		396,660
d. Excavation		31,478
Subtotal	\$	843,312
3. Engineering	\$	112,534
<b>Total Developer Contribution Items</b>	<b>\$</b>	<b>1,233,079</b>

##### B. District Items

1. Commons at Rowe Lane, Phase II-C		
a. Water Impact Fees to MWSC (45 ESFCs at \$2,800 per ESFC)	\$	126,000
b. Wastewater Impact Fees to City of Pflugerville (45 ESFCs at \$2,414 per ESFC)		108,630
<b>Total District Items</b>	<b>\$</b>	<b>234,630</b>

**Total Construction Costs** **\$ 1,467,709**

#### Non-Construction Costs

A. Legal fees (3%)	\$	60,000
B. Financial Advisor Fees (2%)		40,000
C. Interest Costs		
1 Capitalized Interest (24 months @ 3.678704%)		147,148
2 Developer Interest <sup>(a)</sup>		120,139
D. Bond Discount (2.74%)		54,885
E. Bond Issuance Expenses		19,402
F. Bond Application Report		35,750
G. Attorney General Fee (0.10%)		2,000
H. TCEQ Bond Issuance Fee (0.25%)		5,000
I. Contingency <sup>(b)</sup>		47,967
<b>Total Non-Construction Costs</b>	<b>\$</b>	<b>532,291</b>

**TOTAL BOND ISSUE REQUIREMENT** **\$ 2,000,000**

(a) Preliminary; subject to change. The amount of Developer Interest will be finalized in connection with the reimbursement audit approved by the Board of Directors prior to disbursement of funds.

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

## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the District and are not obligations of the State; Williamson County, Texas; Travis County, Texas; the City of Pflugerville, Texas; 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 the Developer and homebuilders are able to obtain financing for development and construction costs. As a result of increasing foreclosure activity, potential adverse impact on assessed valuations and a general tightening of credit that has resulted, lenders have increased lending requirements for both single family mortgage lending and real estate development lending. Additionally, lenders have been selective in recent years in making real estate development loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

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

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

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

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

*Impact on District Tax Rates:* Assuming no further development 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 2014 Certified Assessed Valuation of the District is \$92,864,997 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$699,469 (2034) and the Average Annual Debt Service Requirement will be \$645,663 (2015 through 2034, inclusive). Assuming (1) no increase or decrease from the 2014 Certified Assessed Valuation, and (2) no use of funds on hand, a tax rate of \$0.80/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt

Service Requirement of \$699,469 and a tax rate of \$0.74/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$645,663. The District's Estimated Assessed Valuation as of October 1, 2014 is \$101,333,126. Based upon the assumptions above, a tax rate of \$0.73/\$100 assessed valuation, at a 95% collection rate, and a tax rate of \$0.68/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual and the Average Annual Debt Service 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. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether Section 49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages 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 or to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

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

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (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 water, sewer, irrigation and drainage district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under 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 owner's claim.

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

## **Bond Insurance Risks**

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.

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

## **Continuing Compliance with Certain Covenants**

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

## **Future Debt**

The District has reserved in the Bond Resolution the right to issue the remaining \$46,525,000 authorized but unissued unlimited tax bonds for water, wastewater and drainage purposes and \$3,975,000 of unlimited tax bonds for parks and recreational facilities and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$46,525,000 and \$3,975,000 of unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the Comprehensive Development Agreement, the City of Pflugerville has limited the amount of bonds that can be issued by the District to reimburse the Developer to \$25,775,000 (adjusted for inflation). See "THE DISTRICT – Comprehensive Development Agreement." In the opinion of the District's engineer, the \$25,775,000 (adjusted for inflation) in principal amount of bonds authorized to be issued pursuant to the Comprehensive Development Agreement should be sufficient to reimburse the Developer for the development within the District. See "THE SYSTEM".

To date, the Developer has advanced a total of \$7,593,929 to construct utility facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developer \$1,262,402 (includes engineering fees) for additional facilities which have been constructed to date or are currently under construction.

Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER – Utility Development Agreement". The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt." See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued."

## **Governmental Approval**

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The TCEQ approved the issuance of the Bonds by an order signed on October 6, 2014 (the "TCEQ Order"). Any person affected by the TCEQ Order has 30 days from the date of such order (i.e. until November 5, 2014) to file a petition to review, set aside, modify or suspend the act of the TCEQ approving the Bonds and the project. Additionally any person may file a motion to overturn the TCEQ Executive Director's approval of the District's application within 23 days of the mailing or hand delivery of the TCEQ Order. The TCEQ Order was mailed or hand delivered on October 9, 2014, and the 23 day period expired on November 1, 2014. In addition, the Attorney General of Texas must also approve the legality of the Bonds prior to their delivery. Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

## **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, 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.

## **Tax Exempt Property – Strategic Housing Finance Corporation of Travis County**

Within the District there is the potential for property to be owned by the "Strategic Housing Finance Corporation of Travis County" ("SHFC"), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the "Texas Housing Finance Corporations Act"). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax exempt, therefore during the thirty nine (39) month term of the lease, during which SHFC owns the home, that property is removed from the tax rolls of the District. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax exempt indefinitely. Presently, there are no homes within the District that are owned by SHFC and have been removed from the tax rolls. Because the SHFC program is between itself

and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

### **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 adopted a water conservation plan and currently has implemented water restrictions for residents of the District. Manville Water Supply Corporation provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions continue water usage and rates could be impacted.

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## THE DISTRICT

### General

The District, a political subdivision of the State of Texas, was created by order of the TCEQ on September 1, 2005, and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds subject to voter approval and the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. On November 8, 2005 voters within the District authorized \$55,500,000 in bonds for water, wastewater and drainage facilities and \$3,975,000 in bonds for park and recreational facilities. The District may also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ, and is located partially within the extraterritorial jurisdiction of the City of Pflugerville. Fire services are provided to the District by Travis County Emergency Service District No. 2.

### Management of the District

#### *Board of Directors*

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Tom Corbett	President	2018	9 Years
Michael Zeniecki	Vice President	2016	6 Years
Tim Coffelt	Treasurer	2018	1 Year
J.D. Scott	Secretary	2018	Newly Elected
David Cotton	Assistant Secretary/Treasurer	2016	Newly Appointed

#### *Consultants*

*Tax Assessor/Collector...* Land and improvements in the District located within Travis County are being appraised by the Travis Central Appraisal District ("TCAD") and land and improvements in the District located within Williamson County are being appraised by the Williamson Central Appraisal District ("WCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, and the Williamson County Tax Assessor/Collector, Ms. Deborah Hunt, currently serve the District in this capacity under contract.

TCAD has the responsibility for appraising all property located within Travis County, including the portion of the District located in Travis County, and WCAD has the responsibility for appraising all property located within Williamson County, including the portion of the District located in Williamson County. Similarly to the District, for Leander Independent School District and Round Rock Independent School District, each of which overlap the Travis and Williamson County boundaries, TCAD will appraise property located within each school district which is located within Travis County and WCAD will appraise property located within each school district which is located within Williamson County. The chief appraisers who are responsible for appraising the property within each county are required by law, to the greatest extent practicable, to coordinate their appraisals of each portion of the property to ensure to the greatest extent possible that the property as a whole is appraised at its market value; however, protests of values of property must be filed with the county in which the appraised property being protested is located and each county can make its own independent determination.

*Bookkeeper...* Bott & Douthitt, P.L.L.C. ("B&D") Certified Public Accountants is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 40 other special districts.

*Engineer...* The District's consulting engineer is Gray Engineering, Inc. (the "Engineer"). Such firm serves as consulting engineer to 11 other special districts.

*Auditor...* The District's financial statements for the fiscal year ended September 30, 2013 were prepared by Maxwell, Locke & Ritter, LLP ("ML&R") Certified Public Accountants. ML&R serves as auditor to 35 other special districts. See "Appendix A" for a copy of the District's September 30, 2013 audited financial statements.

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

*Bond Counsel...* The District has engaged Freeman & Corbett, Austin, Texas as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

*Special Tax Counsel...* The District has engaged McCall, Parkhurst & Horton L.L.P., Dallas, Texas, as Special Tax Counsel in connection with the issuance of the District's Bonds. The fees of Special Tax Counsel are contingent upon the sale of and delivery of the Bonds.

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

**Location**

The District, which encompasses approximately 283 acres of land, is located predominately in northeast Travis County with a small portion located in southeast Williamson County and lies approximately five miles northeast of downtown of the City of Pflugerville, Texas. The District is located north and adjacent to Rowe Lane, approximately one mile east of FM 685 North on SH 130, an approximately 49 mile toll road that currently extends from north of Georgetown to the city of Seguin, Texas and Interstate IH-10, and is contained entirely within the extraterritorial jurisdiction of the City of Pflugerville, Texas. See "LOCATION MAP."

**Current Status of Development**

As of October 1, 2014, the development in the District consisted of 485 developed single family lots, which includes 414 completed homes, 24 homes under construction (of which 19 are under contract to a homebuyer), and 47 vacant single family lots. Additionally, the development of utility facilities to serve the Commons at Rowe Lane, Section VII (21.51 acres; platted as 61 single family lots) began in May 2014 and is expected to be completed by December 2014 and development of utility facilities to serve the Commons at Rowe Lane, Section V-A (14.10 acres; platted as 57 single family lots) and the Commons at Rowe Lane, Section VI-A (14.04 acres; platted as 55 single family lots) will begin in November 2014 and are expected to be completed by April 2015. The District also includes an amenity center, totaling 7,500 square feet on 2.26 acres, which includes an adult pool, children's pool, volleyball court, sport court, playground, park, and hike and bike trails.

	Acreage	Single Family			
		Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
<b>A. Developed with Utility Facilities</b>					
Commons at Rowe Lane, Section I	66.36	180	179	0	1
Commons at Rowe Lane, Section II-A	14.14	46	46	0	0
Commons at Rowe Lane, Section II-B	20.45	61	61	0	0
Commons at Rowe Lane, Section III-A	13.77	50	50	0	0
Commons at Rowe Lane, Section II-C	9.74	45	45	0	0
Commons at Rowe Lane, Section III-B	24.50	38	32	6	0
Commons at Rowe Lane, Section IV-A	<u>17.42</u>	<u>65</u>	<u>1</u>	<u>18</u>	<u>46</u>
<i>subtotal</i>	<b>166.38</b>	<b>485</b>	<b>414</b>	<b>24</b>	<b>47</b>
<b>B. Sections Under Construction</b>					
Commons at Rowe Lane, Section VII	21.51	61			
Commons at Rowe Lane, Section V-A	14.10	57			
Commons at Rowe Lane, Section VI-A	<u>14.04</u>	<u>55</u>			
<i>subtotal</i>	<b>49.65</b>	<b>173</b>			
<b>C. Total Developed with Utilities or Under Construction</b>	<b>216.02</b>	<b>658</b>			
<b>D. Remaining Developable Acreage</b>	<b>21.47</b>				
<b>E. Park / Amenity Center</b>	<b>2.26</b>				
<b>F. Undevelopable Acreage</b>	<b><u>43.50</u></b>				
<b>Total</b>	<b>283.26</b>				

## **Future Development**

The District contains approximately 21.47 remaining undeveloped but developable acres under current land development and water quality regulations. 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 any party's ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$25,775,000 in bonds (adjusted for inflation) authorized to be issued pursuant to the Comprehensive Development Agreement with the City of Pflugerville to reimburse the Developer should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acres within the District. See "THE BONDS – Issuance of Additional Debt." The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in its sole discretion. Accordingly, the District makes no representation that future development will occur.

## **Annexation of the District**

The District lies within the extraterritorial jurisdiction of the City of Pflugerville. See "THE BONDS – Annexation" for a discussion of the ability of the City of Pflugerville to annex the District.

## **Comprehensive Development Agreement**

Pursuant to the Comprehensive Development Agreement among the City of Pflugerville, Texas, Rowe Lane Development, Ltd., H2N Corporation (predecessor in interest to the Developer), Atlan Ernest Pfluger, Jr., Ruby Mae Pfluger and Patricia Pfluger Hoffman, the City of Pflugerville consented to the creation of the District along with one or more other water control and improvement districts (or municipal utility districts). The Comprehensive Development Agreement, as amended by the First Amendment dated March 25, 2005 (collectively, the "Comprehensive Development Agreement") governs the development, operations, annexation and issuance of bonds by the District. The development within the District is subject to the subdivision code and other ordinances and regulations of the City of Pflugerville that are applicable by virtue of the District being located within the City of Pflugerville's extraterritorial jurisdiction. Pursuant to the Comprehensive Development Agreement, the District is prohibited from providing out-of-district water or wastewater service to any land except certain areas designated for commercial, retail or non-residential use. The Comprehensive Development Agreement is effective from the date of execution (November 22, 2004) for a period of fifty (50) years but terminates at such time as all of the land within the District has been annexed by the City of Pflugerville and the City of Pflugerville has assumed all obligations of the District.

The Comprehensive Development Agreement authorizes the District to issue bonds and notes, including bond anticipation notes or refunding bonds for any purpose not specifically prohibited by law, the Comprehensive Development Agreement or rules and policies of the TCEQ. The total amount of bonds that can be issued by the District and all districts created pursuant to the Comprehensive Development Agreement and the total reimbursement to the developers is \$25,775,000 (reasonably adjusted for inflation). Reimbursement from the proceeds of bonds issued by the District is allocated sixty-eight percent to the Developer and thirty-two percent to Rowe Lane Development, Ltd. pursuant to an Assignment of Reimbursement Rights and Bond Proceeds dated October 18, 2004. The term of any District bonds cannot exceed 25 years unless the City of Pflugerville specifically approves a longer term for a particular bond issue.

Annexation of the District cannot occur prior to the earlier of: (i) 30 years after the date that the District is created or (ii) such time as the District bonds needed to fund all of the water, wastewater and drainage facilities required to serve the District and authorized under the Comprehensive Development Agreement have been issued and 90 percent of the facilities within the District for which District bonds were issued have been installed.

Pursuant to the Comprehensive Development Agreement and a separate professional services agreement, the City of Pflugerville operates, repairs, maintains and manages the facilities and equipment necessary to provide water and wastewater services to the District. The City of Pflugerville also provides billing and collecting services for all water and wastewater fees on behalf of the District. Under the Comprehensive Development Agreement, the water system, the collection system and the North Pflugerville Wastewater Interceptor System will serve not more than 1,100 LUEs or service units within the development including the District.

## **THE DEVELOPER**

### **General**

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the Developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake

development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

### **Description of Developer**

Property within the District is currently being developed by The Commons at Rowe Lane, L.P (the "Commons" or the "Developer"), a Texas limited partnership comprised of: (i) Rowe Commons Corporation, a Texas corporation which serves as General Partner; (ii) CH Realty III/Rowe, L.P., a Texas limited partnership and affiliate of Crow Realty Investors, L.P.; (iii) James R. Harris, individual, as a class A limited partner; (iv) Lee Nicol, individual, as a class A limited partner; and (v) Commons Development Partners, a class B limited partner, comprised of James R. Harris, Lee Nicol, James B. Haddock and Joseph W. Straub. The Commons was formed February 7, 2005 for the purpose of acquiring and developing the property located within the boundaries of the District as the single family residential subdivision of The Commons at Rowe Lane. Additionally, there are approximately 71 acres within the District which are not owned by the Developer. The 71 acres within the District that is not owned by the Developer was purchased by Rowe Lane, LLC, a Texas limited liability company, and simultaneously conveyed to Rowe Lane 285, L.P. ("Rowe Lane"), a Texas limited partnership, on February 18, 2014. Rowe Lane was formed on February 5, 2014 for the sole purpose of acquiring and developing the 71 acres within the District as a portion of the single family residential subdivision of The Commons at Rowe Lane. Rowe Lane is comprised of: (i) Rowe Lane 285 GenPar, LLC, a Texas limited liability company, which serves as General Partner; (ii) United Development Funding, L.P., a Delaware limited partnership, the sole member of Rowe Lane 285 GenPar, LLC; and (iii) United Development Funding, Inc., a Delaware corporation, the General Partner of United Development Funding, L.P. In addition to simultaneously purchasing and selling the 71 acres, Rowe Lane, LLC, is providing development management services to Rowe Lane. Rowe Lane, LLC is comprised of (i) James R. Harris, individual, as a member and manager; and (ii) Joseph W. Straub, individual, as a member and manager. Rowe Lane, LLC is providing consulting services only and will not be a signatory to any contracts relating to development of the 71 acres and will not be entitled to receive any bond proceeds relating to the 71 acres.

The Developer is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District. The Developer has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the Developer's financial condition is subject to change at any time.

### **Acquisition Financing**

The Developer executed and/or took assignment and assumption of various agreements related to the purchase of various tracts of land totaling approximately 223 acres which included approximately 212 acres within the boundaries of the District. To date, the Developer has acquired approximately 223 acres pursuant to such purchase agreements. The remaining approximately 71 acres within the District not owned by the Developer were purchased by Rowe Lane in February 2014, and Rowe Lane, LLC is providing development services to develop the acreage into single family lots. Rowe Lane's acquisition of the 71 acres within the District was financed in part by a loan from Rowe Lane, LLC in the original principal amount of \$3,525,000.00, which loan has been repaid, and in part by a loan from United Development Funding IV, a Maryland real estate investment trust, in the maximum amount of \$7,457,000. In order to finance development in the District, the Developer has pledged the developed and unsold lots and undeveloped land owned by the Developer to secure a non-recourse revolving line of credit as further described under "Development Financing" below. The acquisition of the approximately 223 acres by the Developer has been paid for with a combination of cash contributions from the partners of the Commons and the revolving loan the Developer has secured.

### **Development Financing**

The Developer commenced construction of water distribution, wastewater collection and storm drainage facilities, as well as street paving to serve land within the District in November 2005. The development of The Commons at Rowe Lane, Sections I, II-A, II-B, II-C, III-A, III-B, IV-A, VII, V-A and VI-A has been accomplished through cash contributions from the partners of the Commons. Additionally, the Developer has paid cash for the construction of an approximately 7,500 square feet amenity center which includes an adult pool, a children's pool, volleyball court, sport court, playground, park and hike and bike trails.

The Developer has informed the District that it has a revolving line of credit from Legacy Texas Bank, Plano, Texas in the principal amount up to \$2.5 million at any one time outstanding that is scheduled to mature in August 2015 (the "Revolving Loan"). The Developer anticipates Legacy Texas Bank will renew the line of credit another year at that time. There is currently \$981,141 outstanding on the Revolving Loan. If amounts are drawn from the Revolving Loan, the interest rate will be the U.S. Prime Rate plus 1% or 5.50%, whichever is greater. Interest on the Revolving Loan will be due monthly and principal is due from funds of the release of lots pursuant to lot sales with the balance of the loan due in August 2015. The Developer has further stated that the financing to continue development within the District for future phases will be paid from a combination of continuing lot sales, reimbursements received from proceeds of the Bonds and/or proceeds from the Revolving Loan.

Rowe Lane has informed the District that it has a revolving line of credit from Commerce National Bank, Austin, Texas in the principal amount up to \$6,000,000 at any one time outstanding that is scheduled to mature July 18, 2018 (the "Revolving Loan"); provided, however, that the maximum amount of the Revolving Loan shall be reduced to \$5,000,000 as of July 18, 2016, and further reduced to \$4,000,000 as of July 18, 2017. If amounts are drawn from the Revolving Loan, the interest rate will be the U.S. Prime Rate plus 1% or 5.50%, whichever is greater. Interest on the Revolving Loan will be due monthly and principal is due from funds of the release of lots pursuant to lot sales and receipt of MUD proceeds from the District. Rowe Lane has further stated that the financing to continue development within the District for future phases

will be paid from a combination of continuing lot sales, reimbursements received from proceeds of bonds and/or proceeds from the Revolving Loan.

**Homebuilders within the District**

According to the Developer, there are currently two homebuilders active within the District: Gehan Homes, Ltd. (“Gehan”) and Brohn Homes, Ltd. (“Brohn”). The Developer has also represented that the homes within the District are being constructed on two lot sizes (55’ and 65’) and range in price from \$244,990 to \$346,990, with square footage ranging from 1,793 to 3,993.

Home construction in the District began in 2006. The following chart illustrates the number of homes built per year starting in 2006.

Calendar Year	No. of Single-Family Homes Constructed
2006	20
2007	60
2008	49
2009	11
2010	56
2011	70
2012	56
2013	60
2014	56*

\* As of October 1, 2014. Includes 32 completed homes and 24 homes currently under construction.

**Utility Development Agreements**

The District has executed one utility construction agreement with the Developer and one with Row Lane. Such agreements govern the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District.

It is anticipated that proceeds of the Bonds will be used to reimburse the Developer and Rowe Lane for water, wastewater and drainage facilities constructed to serve property within the District and to reimburse the Developer and Rowe Lane for previously paid water and wastewater impact fees.

**Agricultural Waiver**

A portion of the undeveloped acreage within the District is subject to an agricultural exemption, however, the Developer has executed an agreement, which is recorded in the real property records of Travis County, and is a covenant running with the land, waiving the right to have the land located within Commons at Rowe Lane, Sections I, II-A, II-B, II-C, III-A, III-B, IV-A and VII classified as agricultural, open-space or timberland. In addition, the Developer has waived the right to have the lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the TCEQ and is binding on purchasers of such land from the developer. See “TAXING PROCEDURES – Property Subject to Taxation by the District.”

**THE SYSTEM**

**Regulation**

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

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

**Water Supply and Distribution**

The District receives its potable water from the Manville Water Supply Corporation (“MWSC”) pursuant to a 50-year wholesale water supply contract dated March 9, 2006 between the District and MWSC, entitled “Wholesale Water Supply Contract” (“MWSC Contract”). The MWSC Contract provides for water in an amount sufficient to serve up to 1,100 living-unit-equivalents (“LUE’s”). According to the MWSC engineer, the MWSC system currently consists of 19 production wells with a combined capacity of 8,500 gallons per minute (“gpm”) sufficient to service 13,000 LUE’s. The current MWSC system capacity is supported by 3,900,000 gallons of total storage, including 1,300,000 gallons elevated storage.

**Wastewater Collection and Treatment**

The District has executed a wastewater agreement with the City of Pflugerville dated November 22, 2004 and amended March 23, 2005. Pursuant to the agreement, the City of Pflugerville agrees to provide wastewater treatment service to support ultimate buildout of up to 1,100 LUE’s within the District. The District intends to own the collection system within its boundary, with the exception of the gravity trunkline, which is owned by the City of Pflugerville. The City of Pflugerville operates the wastewater collection system within the District’s boundary pursuant to two separate operation agreements.

**100-Year Flood Plain**

According to the Engineer, approximately 26 acres within the District are currently located in the floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated August 18, 2014 for Travis County.

**Water and Wastewater Operations**

**Rate and Fee Schedule - Table 1**

The City of Pflugerville provides the retail billing and collecting for the District. The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the monthly rates and fees for the District’s water and sewer service which have been in effect since October 1, 2014.

<i>Monthly Base Charge – Water</i>	
5/8”	\$16.00
3/4”	16.00
1”	21.00
1-1/2”	33.16
2”	48.30
 <i>Monthly Base Charge – Wastewater</i>	
Per Connection	\$40.00
 <i>Water Usage Charge</i>	
0-7,000 gallons	\$3.90 (per 1,000 gallons)
7,001 – 14,999 gallons	4.10 (per 1,000 gallons)
15,000 to unlimited	4.80 (per 1,000 gallons)

The District also charges the following tap fees and security deposit:

<b>Water</b>		<u>Administrative and Tap Fee</u>
<u>Meter Size</u>		\$ 350.00
All meters		
 <b>Wastewater</b>		<u>Administrative and Tap Fee</u>
<u>Type</u>		\$ 450.00
Residential		1,100.00
Commercial		
 <b>Security Deposit</b>		<u>Fee</u>
<u>Meter Size</u>		\$ 125.00
All meters		
 <b>Drainage Fee:</b>		\$ 500.00

**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					
	9/30/2014 <sup>(a)</sup>	9/30/2013 <sup>(b)</sup>	9/30/2012 <sup>(b)</sup>	9/30/2011 <sup>(b)</sup>	9/30/2010 <sup>(b)</sup>	9/30/2009 <sup>(b)</sup>
<b>REVENUES</b>						
Property Taxes, including penalties	\$ 333,623	\$ 253,390	\$ 177,035	\$ 171,419	\$ 189,700	\$ 122,103
Service Account Revenues, including penalties	48,836	41,289	35,102	27,093	20,696	17,175
System Connection Fees	64,400	110,600	91,000	87,500	44,100	40,600
Interest	2,244	2,580	1,902	1,465	1,047	259
Miscellaneous	126	-	34	98	166	-
<b>TOTAL REVENUES</b>	<b>\$ 449,229</b>	<b>\$ 407,859</b>	<b>\$ 305,073</b>	<b>\$ 287,575</b>	<b>\$ 255,709</b>	<b>\$ 180,137</b>
<b>EXPENDITURES</b>						
Director Fees, including payroll taxes	\$ 15,715	\$ 15,663	\$ 12,111	\$ 10,334	\$ 10,980	\$ 9,527
Legal Fees	44,710	41,097	32,362	29,474	27,565	29,324
Engineering Fees	60,360	66,716	32,691	25,914	43,007	35,431
Financial Advisor Fees	2,139	1,059	1,218	973	1,142	1,082
Accounting Fees	17,550	17,550	17,550	17,550	17,550	17,550
Audit Fees	11,500	11,500	11,000	10,500	10,000	14,500
Utilities	13,874	13,552	10,854	8,805	6,241	5,665
Insurance	1,375	1,269	804	200	960	1,716
Landscaping	28,687	46,081	30,666	29,668	18,321	6,036
Tax Appraisal/Collection Fees	1,940	1,487	1,050	1,036	1,188	1,256
Repairs & Maintenance	29,010	-	-	-	-	-
Other	2,035	2,960	1,382	2,387	402	832
Capital Outlay	72,607	-	-	7,400	10,897	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 301,502</b>	<b>\$ 218,934</b>	<b>\$ 151,688</b>	<b>\$ 144,241</b>	<b>\$ 148,253</b>	<b>\$ 122,919</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 147,728</b>	<b>\$ 188,925</b>	<b>\$ 153,385</b>	<b>\$ 143,334</b>	<b>\$ 107,456</b>	<b>\$ 57,218</b>
Plus/(Less) Other Financing Sources	\$ -	\$ -	\$ (7,283)	\$ -	\$ -	\$ (2,672)
<b>Fund Balance, beginning of yr.</b>	<b>\$ 708,652</b>	<b>\$ 519,727</b>	<b>\$ 373,625</b>	<b>\$ 230,291</b>	<b>\$ 122,835</b>	<b>\$ 68,289</b>
<b>Fund Balance, end of yr.</b>	<b>\$ 856,379</b>	<b>\$ 708,652</b>	<b>\$ 519,727</b>	<b>\$ 373,625</b>	<b>\$ 230,291</b>	<b>\$ 122,835</b>

(a) Unaudited.

(b) Audited.

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**DEBT SERVICE REQUIREMENTS - TABLE 3**

**Lakeside Municipal Utility District No. 3  
\$2,000,000**

**Unlimited Tax Bonds, Series 2014**

**Dated Date: December 1, 2014**

**First Interest Payment Due: March 1, 2015**

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Total Debt Service Requirements	
	Principal	Interest		Total	Principal	Interest		Principal and Interest		
	Due (09/01)	Due (03/01)	Due (09/01)		(Due 9/01)	(Due 3/01)	(Due 9/01)			Total
2015	\$ 265,000	\$ 125,204	\$ 125,204	\$ 515,409	\$ 5,000	\$ 17,398	\$ 34,797	\$ 52,195	\$ 57,195	\$ 572,604
2016	265,000	120,417	120,417	505,834	5,000	34,722	34,722	69,444	74,444	580,278
2017	275,000	116,079	116,079	507,159	5,000	34,647	34,647	69,294	74,294	581,453
2018	295,000	111,454	111,454	517,909	5,000	34,572	34,572	69,144	74,144	592,053
2019	315,000	106,811	106,811	528,621	5,000	34,497	34,497	68,994	73,994	602,615
2020	325,000	102,636	102,636	530,271	25,000	34,422	34,422	68,844	93,844	624,115
2021	340,000	98,051	98,051	536,103	25,000	34,016	34,016	68,031	93,031	629,134
2022	350,000	92,951	92,951	535,903	25,000	33,609	33,609	67,219	92,219	628,121
2023	355,000	87,516	87,516	530,033	25,000	33,203	33,203	66,406	91,406	621,439
2024	365,000	81,601	81,601	528,203	50,000	32,797	32,797	65,594	115,594	643,796
2025	405,000	75,330	75,330	555,660	50,000	31,984	31,984	63,969	113,969	669,629
2026	415,000	67,883	67,883	550,765	75,000	31,172	31,172	62,344	137,344	688,109
2027	430,000	60,208	60,208	550,415	75,000	29,953	29,953	59,906	134,906	685,321
2028	440,000	52,203	52,203	544,405	75,000	28,734	28,734	57,469	132,469	676,874
2029	480,000	43,621	43,621	567,243	75,000	27,516	27,516	55,031	130,031	697,274
2030	500,000	34,115	34,115	568,230	75,000	26,297	26,297	52,594	127,594	695,824
2031	515,000	23,640	23,640	562,280	75,000	25,031	25,031	50,063	125,063	687,343
2032	390,000	12,878	12,878	415,755	200,000	23,766	23,766	47,531	247,531	663,286
2033	175,000	4,375	4,375	183,750	450,000	20,391	20,391	40,781	490,781	674,531
2034	-	-	-	-	675,000	12,234	12,234	24,469	699,469	699,469
	<b><u>\$ 6,900,000</u></b>	<b><u>\$ 1,416,973</u></b>	<b><u>\$ 1,416,973</u></b>	<b><u>\$ 9,733,945</u></b>	<b><u>\$ 2,000,000</u></b>	<b><u>\$ 580,961</u></b>	<b><u>\$ 598,359</u></b>	<b><u>\$ 1,179,321</u></b>	<b><u>\$ 3,179,321</u></b>	<b><u>\$ 12,913,266</u></b>

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

**Assessed Value - Table 4**

2014 Certified Assessed Valuation		\$ 92,864,997 <sup>(a)</sup>
Estimated Assessed Valuation as of October 1, 2014		101,333,126 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		\$ 8,900,000 <sup>(c)</sup>
Ratio of Gross Debt to 2014 Certified Assessed Valuation		9.58%
Ratio of Gross Debt to Estimated Assessed Valuation as of October 1, 2014		8.78%
2014 Tax Rate		
Debt Service	\$	0.5212
Maintenance		<u>0.3563</u>
<b>Total 2014 Tax Rate</b>		<u><u>\$ 0.8775</u></u> <sup>(d)</sup>
Debt Service Fund Balance (as of November 12, 2014)		\$ 166,177 <sup>(e)</sup>
Estimated Population as of October 1, 2014 .....	1,449	<sup>(f)</sup>
Area of District: 283.26 acres		

- (a) Assessed valuation of the District as of January 1, 2014 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated Assessed Valuation as of October 1, 2014, as provided by TCAD (and added to the certified assessed valuation as of January 1, 2014 provided by WCAD), is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by TCAD and WCAD.
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.8775 at its meeting in September 2014.
- (e) Unaudited as of November 12, 2014. Does not include approximately twenty-four months' capitalized interest (\$147,148) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Resolution 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	Authorized But Unissued
11/8/2005	Water, Sanitary Sewer & Drainage	\$ 55,500,000	\$ 8,975,000 <sup>(a)</sup>	\$ 46,525,000
11/8/2005	Refunding	59,475,000	410,000	59,065,000
11/8/2005	Park & Recreational Facilities	<u>\$ 3,975,000</u>	<u>\$ -</u>	<u>3,975,000</u>
	Total	<u><u>\$ 114,975,000</u></u>	<u><u>\$ 9,385,000</u></u>	<u><u>\$ 105,590,000</u></u>

(a) Includes the Bonds.

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**Outstanding Bonds - Table 6**

<b>Dated Date</b>	<b>Purpose</b>	<b>Original Series</b>	<b>Original Principal Amount</b>	<b>Principal Amount Outstanding after the Issuance of the Bonds</b>
<b>A. New Money Bonds</b>				
09/01/08	Water, Sanitary Sewer & Drainage	2008	\$ 1,675,000	\$ 255,000
03/01/10	Water, Sanitary Sewer & Drainage	2010	1,325,000	135,000
09/01/12	Water, Sanitary Sewer & Drainage	2012	1,725,000	1,645,000
12/01/13	Water, Sanitary Sewer & Drainage	2013A	2,250,000	2,175,000
12/01/14	Water, Sanitary Sewer & Drainage	2014	2,000,000	2,000,000 <sup>(a)</sup>
	<b>Subtotal</b>		<b>\$ 8,975,000</b>	<b>\$ 6,210,000</b>
<b>B. Refunding Bonds</b>				
04/01/13	Refunding	2013	2,745,000	2,690,000
	<b>Subtotal</b>		<b>\$ 2,745,000</b>	<b>\$ 2,690,000</b>
	<b>Total</b>		<b>\$ 11,720,000</b>	<b>\$ 8,900,000</b>

(a) The Bonds.

**Cash and Investment Balances - Table 7 (a)**

General Fund	\$ 822,990
Debt Service Fund	166,177 <sup>(b)</sup>
Capital Projects Fund	222,113

(a) Unaudited as of November 12, 2014. Includes cash and investments.

(b) Does not include approximately 24 months' capitalized interest (\$147,148) included in the Bond proceeds. Neither Texas law nor the Bond Resolution 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), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested

under such contract, other than the prohibited obligations described below.

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

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

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

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, 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 any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

#### **Current Investments - Table 8**

The District, as of November 12, 2014, is invested in TexPool and Certificates of Deposit, as shown below. 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.

Investment Value as of November 12, 2014	
Cash	\$ 100,398
TexPool	565,882
Certificates of Deposit	545,000
<b>Total Investments</b>	<b>\$ 1,211,280</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 subdivision 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.

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Williamson County	702,846,589	10/1/2014	0.009%	\$ 63,256
Travis County	631,407,697	10/1/2014	0.057%	357,572
Travis County Healthcare District	15,070,000	10/1/2014	0.063%	9,545
Pflugerville Independent School District	529,802,308	10/1/2014	0.920%	<u>4,874,774</u>
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 5,305,147</b>
The District <sup>(a)</sup>	\$ 8,900,000	12/1/2014	100.00%	8,900,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b><u>\$ 14,205,147</u></b>
<b>Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation</b>				<b>15.30%</b>
<b>Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of October 1, 2014</b>				<b>14.02%</b>

(a) Includes the Bonds.

### Overlapping Taxes for 2014

Overlapping Entity	2014 Tax Rate Per			
	\$100 Assessed Valuation		Average Tax Bill <sup>(a)</sup>	
	Travis County	Williamson County	Travis County	Williamson County
Williamson County	\$0.000000	\$0.486529	\$ -	\$ 1,128
Travis County	0.480900	0.000000	1,115	-
Travis County Healthcare District	0.126400	0.000000	293	-
Pflugerville Independent School District	1.540000	1.540000	3,572	3,572
The District	<u>0.877500</u>	<u>0.877500</u>	<u>2,035</u>	<u>2,035</u>
<b>Total</b>	<b><u>\$3.024800</u></b>	<b><u>\$2.904029</u></b>	<b><u>\$ 7,016</u></b>	<b><u>\$ 6,736</u></b>

(a) Based upon the 2014 average single-family home value of \$231,941 as provided by the TCAD.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 89,753,468	96.65%	\$ 66,650,229	97.56%	\$ 52,202,828	94.43%
Vacant Lot	100,533	0.11%	130,507	0.19%	270,857	0.49%
Qualified Ag Land	80,177	0.09%	57,560	0.08%	57,560	0.10%
Non-Qualified Ag Land	443,461	0.48%	576,451	0.84%	576,451	1.04%
Commercial Personal Property	967,982	1.04%	334,646	0.49%	327,956	0.59%
Residential Inventory	3,639,569	3.92%	1,718,047	2.51%	2,995,163	5.42%
Totally Exempt Property	73,675	0.08%	73,500	0.11%	71,750	0.13%
Plus/(Minus) Adjustments	<u>(2,193,868)</u>	<u>-2.36%</u>	<u>(1,225,104)</u>	<u>-1.79%</u>	<u>(1,219,299)</u>	<u>-2.21%</u>
<b>Total</b>	<b>\$ 92,864,997</b>	<b>100.00%</b>	<b>\$ 68,315,836</b>	<b>100.00%</b>	<b>\$ 55,283,266</b>	<b>100.00%</b>

**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.

Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current		Total		Year Ending
				Amount	%	Amount	%	
2006	\$ 448,101	0.9000	4,033	4,033	100.00%	4,033	100.00%	09/30/07 <sup>(b)</sup>
2007	6,981,856	0.9000	64,924	64,924	100.00%	64,924	100.00%	09/30/08 <sup>(b)</sup>
2008	19,537,756	0.9000	172,403	170,320	98.79%	170,320	98.79%	09/30/09 <sup>(b)</sup>
2009	30,763,508	0.9000	276,256	270,456	97.90%	272,539	98.65%	09/30/10 <sup>(b)</sup>
2010	32,969,132	0.9000	296,722	296,722	100.00%	302,522	101.95%	09/30/11 <sup>(b)</sup>
2011	38,813,777	0.9000	349,371	343,023	98.18%	343,023	98.18%	09/30/12 <sup>(b)</sup>
2012	55,283,266	0.9000	499,583	499,583	100.00%	505,931	101.27%	09/30/13 <sup>(b)</sup>
2013	68,295,560	0.9000	614,660	614,660	100.00%	614,660	100.00%	09/30/14 <sup>(c)</sup>
2014	92,864,997	0.8775	814,890	<i>In Process of Collection</i>				09/30/15 <sup>(d)</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.
- (d) Taxes are due with no penalty by January 31, 2015.

**District Tax Rates - Table 11**

	Tax Rates per \$100 Assessed Valuation				
	2014	2013	2012	2011	2010
<b>Debt Service</b>	\$ 0.5212	\$ 0.4115	\$ 0.4486	\$ 0.4357	\$ 0.3955
<b>Maintenance</b>	<u>0.3563</u>	<u>0.4885</u>	<u>0.4514</u>	<u>0.4643</u>	<u>0.5045</u>
<b>Total</b>	<b>\$ 0.8775</b>	<b>\$ 0.9000</b>	<b>\$ 0.9000</b>	<b>\$ 0.9000</b>	<b>\$ 0.9000</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, maintaining, repairing and 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 that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on November 8, 2005, voters within the District authorized a maintenance tax not to exceed \$1.40/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2014 maintenance and operation tax of \$0.3563/\$100 assessed valuation. See "THE DISTRICT – General."

**Principal Taxpayers - Table 12**

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2014, 2013 and 2012 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

<b>Taxpayer</b>	<b>Type of Property</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Gehan Homes Ltd.	Lots and Homes	\$ 2,848,999	\$ 1,219,938	\$ 1,012,460
Wheels LT	Automobile Lease Company	581,066	(a)	(a)
Individual Homeowner	Land and Improvements	478,376	431,185	425,513
Commons at Rowe Lane LP	Acreage and Lots	454,639	492,835	1,819,750
Individual Homeowner	Land and Improvements	306,483	(a)	(a)
Individual Homeowner	Land and Improvements	304,051	(a)	(a)
Individual Homeowner	Land and Improvements	302,943	(a)	(a)
Individual Homeowner	Land and Improvements	301,744	280,988	267,949
Individual Homeowner	Land and Improvements	301,584	280,191	264,695
Individual Homeowner	Land and Improvements	(a)	272,906	264,438
Individual Homeowner	Land and Improvements	(a)	271,047	256,149
Individual Homeowner	Land and Improvements	(a)	270,556	255,972
Individual Homeowner	Land and Improvements	(a)	268,439	255,798
<b>Total</b>		<b><u>\$ 5,879,885</u></b>	<b><u>\$ 3,788,085</u></b>	<b><u>\$ 4,822,724</u></b>
<b>Percent of Certified Assessed Valuation</b>		<b>6.33%</b>	<b>5.55%</b>	<b>8.72%</b>

(a) Not a principal taxpayer in respective year.

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**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2014 Certified Assessed Valuation and the Estimated Assessed Valuation as of October 1, 2014, 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 - Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2034) .....	\$645,663
\$0.74 Tax Rate on 2014 Certified Assessed Valuation of \$92,864,997 @ 95% collections produces .....	\$652,841
\$0.68 Tax Rate on Estimated Assessed Valuation as of October 1, 2014 of \$101,333,126 @ 95% collections produces .....	\$654,612
Maximum Requirement on the Bonds and the Outstanding Bonds (2034) .....	\$699,469
\$0.80 Tax Rate on 2014 Certified Assessed Valuation of \$92,864,997 @ 95% collections produces .....	\$705,774
\$0.73 Tax Rate on Estimated Assessed Valuation as of October 1, 2014 of \$101,333,126 @ 95% collections produces .....	\$702,745

**Debt Service Fund Management Index**

Debt Service Requirements for year ending 12/31/15 .....	\$572,604 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of 9/10/2014 .....	\$165,765 <sup>(b)</sup>
Capitalized Interest included in Bond proceeds .....	\$147,148 <sup>(c)</sup>
2014 Tax Levy @ 95% collections produces .....	<u>\$459,812</u> <sup>(d)</sup>
Total Available for Debt Service .....	<u>\$772,725</u>
Projected Debt Service Fund Balance as of September 30, 2015 .....	\$200,121

- (a) Interest requirements on the Bonds begin March 1, 2015.
- (b) Unaudited as of September 10, 2014. Represents debt service fund balance after all 2014 debt service requirements have been paid.
- (c) Represents approximately two years of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.
- (d) The District levied a 2014 debt service tax rate of \$0.5212.

**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 Outstanding Bonds, the 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 Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under State law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District 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 herein.

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

## **Property Subject to Taxation by the District**

**General:** Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. 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. Additionally, a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of their residence homestead, effective for the tax years beginning on or after January 1, 2009. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, 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:** Travis County or 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.

**Goods-in-Transit:** Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. The District has not taken action to tax goods-in-transit.

## **Valuation of Property for Taxation**

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

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price that such property would bring if sold as a unit to a purchaser who would continue the business. Developers 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 and TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the WCAD and the TCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the WCAD and the TCAD or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the WCAD and the TCAD choose formally to include such values on its respective 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 or TCAD to compel compliance with the Property Tax Code.

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

## **Levy and Collection of Taxes**

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

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

The qualified voters of the District have to 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 rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State 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 2014". 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. See "INVESTMENT CONSIDERATIONS - The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

## **LEGAL MATTERS**

### **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Freeman & Corbett ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that

the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The supplemental legal opinion of McCall, Parkhurst & Horton, L.L.P., Special Tax Counsel ("Special Tax Counsel"), will also address the matters described below under "TAX MATTERS." Special Tax Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986. See "Tax Matters" below. Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceeds relating to the Bonds. Bond Counsel will be solely responsible for such proceedings and Special Tax Counsel will be solely responsible for its opinion. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

#### **No-Litigation Certificate**

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

#### **No Material Adverse Change**

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

### **TAX MATTERS**

#### **Tax Exemption**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Special Tax Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Special Tax 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 C -- Form of Opinion of Special Tax Counsel.

In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Freeman & Corbett L.L.P., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District's federal tax certificate and (c) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matter. 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.

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

## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification, retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty 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 credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations. **INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.**

Interest on the Bonds will be includable as an adjustment for "adjusted current earnings" to calculate the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

### **Tax Accounting Treatment of Original Issue Discount Bonds**

The Initial Purchaser has represented that the initial public offering price to be paid for one or more maturities of the Bonds is less than the principal or maturity 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 Bond"). 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 constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See "Tax Exemption" herein for a discussion of certain collateral federal tax consequences.

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 accrual period and ratably within each such accrual 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 amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Bond.

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

## 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 "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 Resolution, 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 events, 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: (i) non-payment related defaults; (ii) modifications to rights of Bondholders; (iii) Bond calls; (iv) release, substitution, or sale of property securing repayment of the Bonds; (v) 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 (vi) 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: (i) principal and interest payment delinquencies; (ii) unscheduled draws on debt service reserves reflecting financial difficulties; (iii) unscheduled draws on credit enhancements reflecting

financial difficulties; (iv) substitution of credit or liquidity providers, or their failure to perform; (v) 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 status of the Bonds, or other events affecting the tax status of the Bonds; (vi) tender offers; (vii) defeasances; (viii) rating changes; and (ix) 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.

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 this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter or purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **Compliance with Prior Undertakings**

The District is in compliance with all material provisions of its continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

#### **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 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 – Gray Engineering, Inc., ("Engineer"), Pflugerville Independent School District, various area commercial and retail establishments and the Developer; "THE DEVELOPER" – The Commons at Rowe Lane, L.P. (the "Developer"); "THE SYSTEM" – Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" – Records of the District ("Records"), "FINANCIAL STATEMENT" – Travis County Appraisal District, Williamson Central Appraisal District; "ESTIMATED OVERLAPPING DEBT STATEMENT" – Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "WATER AND SEWER OPERATIONS" – Audits, Records and Tax Assessor/Collector; "MANAGEMENT" – District Directors; "DEBT SERVICE REQUIREMENTS" – Financial Advisor; "THE BONDS," "LEGAL MATTERS", "TAXING PROCEDURES," "CONTINUING DISCLOSURE OF INFORMATION" (except in the subheading "Compliance with Prior Undertakings") - Freeman & Corbett; "TAX MATTERS" - 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.

**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 Travis Central Appraisal District and the Williamson Central Appraisal District, in reliance upon their authority in the field of appraising and tax assessing.

**Auditor:** The District's financial statements are audited by Maxwell, Locke & Ritter, L.L.P., Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2013 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

### Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described below. See "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts and sources listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. All changes in the affairs of the District and other matters described in the Official Statement subsequent to the delivery of the Bonds and all information with respect to the resale of the Bonds are the responsibility of the Initial Purchaser.

**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 once the District has issued bonds or has assets or receipts in excess of \$100,000. Prior to selling bonds or having assets over \$100,000, the District is allowed under State law to file a financial report in lieu of an audit. 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 Lakeside Municipal Utility District No. 3, as of the date shown on the first page hereof.

/s/ Tom Corbett  
President, Board of Directors  
Lakeside Municipal Utility District No. 3

/s/ J.D. Scott  
Secretary, Board of Directors  
Lakeside Municipal Utility District No. 3

## PHOTOGRAPHS

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

The information contained in this appendix has been excerpted from the audited financial statement of Lakeside Municipal Utility District No. 3 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.

**LAKESIDE  
MUNICIPAL UTILITY DISTRICT  
NO. 3**

**Financial Statements and  
Supplemental Information for the  
Year Ended September 30, 2013 and  
Independent Auditors' Report**

**LAKESIDE  
MUNICIPAL UTILITY DISTRICT NO. 3**

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**ANNUAL FILING AFFIDAVIT**

# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF TRAVIS

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**

(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **8<sup>th</sup> day of January, 2014**, its annual audit report for the fiscal year 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, TX 78701**

(Address of District's Office)

This filing affidavit and the attached copy of the audit report will be 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 of District Representative)

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

(SEAL)

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

\_\_\_\_\_  
(Printed Name of Notary)

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

**INDEPENDENT AUDITORS' REPORT**



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

tel (512) 370 3200 fax (512) 370 3250  
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100  
Austin, TX 78701

Round Rock: 303 East Main Street  
Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Lakeside Municipal Utility District No. 3:

We have audited the accompanying financial statements of the governmental activities and each major fund of Lakeside Municipal Utility District No. 3 (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.

### **Auditors' Responsibility**

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"  
This firm is not a CPA firm*

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

## **Opinions**

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

## **Emphasis of Matter**

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board (“GASB”) Statement No. 65, *Items Previously Reports as Assets and Liabilities*. Our opinions are not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-7 and FS-18, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The Texas supplemental information and other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

*Maxwell Locke + Ritter LLP*

Austin, Texas  
January 8, 2014

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34, the management of Lakeside Municipal Utility District No. 3 (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended September 30, 2013. Since this information is designed to focus on current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the District’s financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the unassigned fund balance was \$708,652, an increase of \$188,925 from the previous fiscal year. General Fund revenues increased from \$305,073 in the previous fiscal year to \$407,859 in the current fiscal year due to an increase in service fee revenues and system connection fees.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$259,930 in the previous fiscal year to \$170,480 in the current fiscal year. Debt Service Fund revenues increased from \$167,173 in the previous fiscal year to \$252,006 in the current fiscal year due to additional property tax revenues generated as a result of an increase in the tax rate allocated to the Debt Service Fund and an increase in the District’s assessed valuation.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$132,830 in the previous fiscal year to \$131,688 in the current fiscal year. The District expended \$1,268 in bond issue costs during the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$83,962. The District adjusted beginning of the year net position downward by \$398,962 to account for the effect of GASB Statement No. 65 as explained in Note 11 of the *Notes to the Basic Financial Statements*. Net position, including the prior period adjustment, decreased from \$27,794 last year to a deficit balance of \$455,130 at September 30, 2013.

**OVERVIEW OF THE DISTRICT**

The District, a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (“TCEQ”) on September 1, 2005. The District was created to provide water, wastewater, and storm drainage facilities to the land within its boundaries and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District is located entirely within the extraterritorial jurisdiction of the City of Pflugerville and wholly within the boundaries of Travis County, Texas and Williamson County, Texas. The District is situated approximately 5 miles northeast of the central business district of the City of Pflugerville.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

**USING THIS ANNUAL REPORT**

This annual report consists of six parts:

1. *Management’s Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Notes to the Basic Financial Statements*
4. *Required Supplementary Information*
5. *Texas Supplemental Information* (required by the TCEQ (the TSI section))
6. *Other Supplementary Information* (the OSI section)

For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the “Governmental Funds Total” column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the Statement of Net Position and the Statement of Activities.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2013	2012	
Current and Other Assets	\$ 1,024,543	\$ 934,336	\$ 90,207
Capital and Non-Current Assets, as restated	3,179,916	3,241,783	(61,867)
Total Assets, as restated	<u>4,204,459</u>	<u>4,176,119</u>	<u>28,340</u>
Deferred Charges on Refunding	<u>177,923</u>	-	<u>177,923</u>
Current Liabilities	202,368	155,532	46,836
Long-term Liabilities	4,635,144	4,391,755	243,389
Total Liabilities	<u>4,837,512</u>	<u>4,547,287</u>	<u>290,225</u>
Net Investment in Capital Assets, as restated	(1,320,617)	(1,142,142)	(178,475)
Restricted	156,835	247,972	(91,137)
Unrestricted	708,652	523,002	185,650
Total Net Position, as restated	<u>\$ (455,130)</u>	<u>\$ (371,168)</u>	<u>\$ (83,962)</u>

The District's combined net position increased from a deficit of \$371,168 in the previous fiscal year (as adjusted for the prior period adjustment to implement GASB Statement No. 65) to a deficit balance of \$455,130 in the current fiscal year. Some of these assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$708,652.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

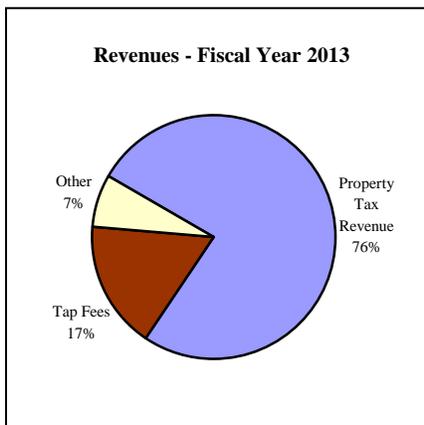
**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2013	2012	
Tap connection fees	\$ 110,600	\$ 91,000	\$ 19,600
Property taxes	498,668	349,513	149,155
Other	44,375	38,090	6,285
<b>Total Revenues</b>	<b>653,643</b>	<b>478,603</b>	<b>175,040</b>
Legal fees	41,097	32,362	8,735
Engineering fees	66,716	32,691	34,025
Accounting fees	17,550	17,550	-
Other	96,101	71,214	24,887
Debt service	387,592	165,753	221,839
Deprecation	61,867	41,337	20,530
Amortization	66,682	14,259	52,423
<b>Total Expenses</b>	<b>737,605</b>	<b>375,166</b>	<b>362,439</b>
<b>Change in Net Position</b>	<b>(83,962)</b>	<b>103,437</b>	<b>(187,399)</b>
<b>Beginning Net Position</b>	<b>(371,168)</b>	<b>(75,643)</b>	<b>(295,525)</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>(398,962)</b>	<b>398,962</b>
<b>Ending Net Position</b>	<b>\$ (455,130)</b>	<b>\$ (371,168)</b>	<b>\$ (83,962)</b>

Revenues were \$653,643 for the fiscal year ended September 30, 2013, while expenses were \$737,605. Net position decreased \$83,962.

Property taxes, including penalties and interest, totaled \$498,668. Included in these taxes are real and personal property taxes which are assessed October 1 and payable before the following January 31.



The District's assessed value in fiscal year 2013 (which was based on the 2012 tax levy) was approximately \$55 million compared to \$39 million in fiscal year 2012. The tax rate is set after reviewing the operating and debt service requirements and appraised values determined by Travis County. The ad valorem tax rate for fiscal year 2013 was \$0.90 per \$100 assessed valuation. This is the same tax rate as fiscal year 2012. The District's primary revenue sources are property taxes and tap connection fees.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

**ANALYSIS OF GOVERNMENTAL FUNDS**

Governmental Funds by Year

	2013	2012	2011	2010
Cash, cash equivalents, and investments	\$ 1,009,218	\$ 916,947	\$ 569,250	\$ 542,111
Receivables	24,383	18,956	18,212	25,702
<b>Total Assets</b>	<b>\$ 1,033,601</b>	<b>\$ 935,903</b>	<b>\$ 587,462</b>	<b>\$ 567,813</b>
Accounts payable	13,723	13,563	8,496	11,045
Interfund payable	9,058	1,567	8,182	9,158
Other	-	1,938	-	-
<b>Total Liabilities, as restated</b>	<b>22,781</b>	<b>17,068</b>	<b>16,678</b>	<b>20,203</b>
Deferred Inflows of Resources, as restated	-	6,348	-	5,800
Restricted	302,168	392,760	204,942	311,519
Unassigned	708,652	519,727	365,842	230,291
<b>Total Fund Balances</b>	<b>1,010,820</b>	<b>912,487</b>	<b>570,784</b>	<b>541,810</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,033,601</b>	<b>\$ 935,903</b>	<b>\$ 587,462</b>	<b>\$ 567,813</b>

For the fiscal year ended September 30, 2013, the District's governmental funds reflect a combined fund balance of \$1,010,820. This fund balance includes an \$188,925 increase in the General Fund.

The Debt Service Fund reflects a decrease of \$89,450 in fiscal year 2013. The Debt Service Fund remitted bond principal of \$150,000 and bond interest of \$184,541. More detailed information about the District's debt is presented in the *Notes to the Basic Financial Statements*.

The Capital Projects Fund purchases the District's infrastructure. The Capital Projects Fund had a \$1,142 decrease in fund balance for fiscal year 2013 due to bond issue expenses.

For the year ended September 30, 2013, the District adopted 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, and provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period. GASB Statement No. 63 has been implemented in these financial statements.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

The District also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for fiscal years beginning after December 15, 2012, and 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.

**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating expenditures. On September 12, 2012, the Board of Directors approved a budget including revenues of \$389,646 as compared to expenses of \$170,714. When comparing actual to budget, the District had a negative variance of \$30,007. More detailed information about the District's budgetary comparison is presented in the *Required Supplemental Information*.

**CAPITAL ASSETS**

The District's governmental activities have invested \$3,179,916 in land and infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	9/30/2013	9/30/2012
Capital Assets:		
Land	\$ 273,480	\$ 273,480
Water/Wastewater/Drainage Facilities	3,093,331	3,093,331
Less: Accumulated Depreciation	(186,895)	(125,028)
Total Net Capital Assets	\$ 3,179,916	\$ 3,241,783

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

**LONG TERM DEBT**

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

	Bonds Payable
Series 2008	\$ 310,000
Series 2010	175,000
Series 2012	1,695,000
Series 2013	2,720,000
Total	<u>\$ 4,900,000</u>

The District owes \$4.9 million to bond holders. During the fiscal year, \$150,000 of principal reductions was paid by the District. Also during the year, the District issued \$2,745,000 in refunding bonds to advance refund \$2,335,000 of its previously issued Series 2008 and Series 2011 bonds. The advance refunding resulted in an overall debt service savings to the District of approximately \$82,000. More detailed information about the District’s long-term debt is presented in the *Notes to the Basic Financial Statements*.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The property tax assessed value and net taxable value for 2013 is approximately \$68 million. The fiscal year 2014 tax rate is \$0.90 on each \$100 of taxable value. Approximately 55% of the property tax will fund general operating expenses, and approximately 45% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2014 projects an operating fund balance increase of \$173,850.

**REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Net Position
<b>ASSETS</b>						
Cash and cash equivalents:						
Cash	\$ 64,217	\$ -	\$ -	\$ 64,217	\$ -	\$ 64,217
Cash equivalents	88,775	179,038	132,188	400,001	-	400,001
Investments	545,000	-	-	545,000	-	545,000
Receivables:						
Service accounts, no provision for uncollectible accounts	7,659	-	-	7,659	-	7,659
Interest	987	-	-	987	-	987
Interfund receivables	9,058	-	-	9,058	(9,058)	-
Other	6,679	-	-	6,679	-	6,679
Capital assets, net of accumulated depreciation:						
Land	-	-	-	-	273,480	273,480
Water/Wastewater/Drainage	-	-	-	-	2,906,436	2,906,436
<b>TOTAL ASSETS</b>	<b>\$ 722,375</b>	<b>\$ 179,038</b>	<b>\$ 132,188</b>	<b>\$ 1,033,601</b>	<b>3,170,858</b>	<b>4,204,459</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred charges on refundings	-	-	-	-	177,923	177,923
Total deferred outflows of resources	-	-	-	-	177,923	177,923
<b>LIABILITIES</b>						
Accounts payable	\$ 13,723	\$ -	\$ -	\$ 13,723	\$ -	13,723
Accrued interest payable	-	-	-	-	13,645	13,645
Interfund payables	-	8,558	500	9,058	(9,058)	-
Bonds payable:						
Due within one year	-	-	-	-	175,000	175,000
Due after one year	-	-	-	-	4,635,144	4,635,144
<b>TOTAL LIABILITIES</b>	<b>13,723</b>	<b>8,558</b>	<b>500</b>	<b>22,781</b>	<b>4,814,731</b>	<b>4,837,512</b>
<b>FUND BALANCE / NET POSITION</b>						
Fund balances:						
Restricted for debt service	-	170,480	-	170,480	(170,480)	-
Restricted for capital projects	-	-	131,688	131,688	(131,688)	-
Unassigned	708,652	-	-	708,652	(708,652)	-
<b>TOTAL FUND BALANCES</b>	<b>708,652</b>	<b>170,480</b>	<b>131,688</b>	<b>1,010,820</b>	<b>(1,010,820)</b>	<b>-</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 722,375</b>	<b>\$ 179,038</b>	<b>\$ 132,188</b>	<b>\$ 1,033,601</b>		
Net position:						
Net investment in capital assets					(1,320,617)	(1,320,617)
Restricted for debt service					156,835	156,835
Unrestricted					708,652	708,652
<b>TOTAL NET POSITION</b>					<b>\$ (455,130)</b>	<b>\$ (455,130)</b>

*The accompanying notes are an integral part of this statement.*

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
<b>REVENUES</b>						
Property taxes, including penalties and interest	\$ 253,390	\$ 251,626	\$ -	\$ 505,016	\$ (6,348)	\$ 498,668
Service accounts, including penalties	41,289	-	-	41,289	-	41,289
Tap connections	110,600	-	-	110,600	-	110,600
Interest	2,580	380	126	3,086	-	3,086
<b>TOTAL REVENUES</b>	<b>407,859</b>	<b>252,006</b>	<b>126</b>	<b>659,991</b>	<b>(6,348)</b>	<b>653,643</b>
<b>EXPENDITURES / EXPENSES</b>						
Current:						
Landscaping	46,081	-	-	46,081	-	46,081
Utilities	13,552	-	-	13,552	-	13,552
Director fees, including payroll taxes	15,663	-	-	15,663	-	15,663
Legal fees	41,097	-	-	41,097	-	41,097
Engineering fees	66,716	-	-	66,716	-	66,716
Financial advisor fees	1,059	1,052	-	2,111	-	2,111
Accounting fees	17,550	-	-	17,550	-	17,550
Audit fees	11,500	-	-	11,500	-	11,500
Insurance	1,269	-	-	1,269	-	1,269
Tax appraisal/collection	1,487	1,478	-	2,965	-	2,965
Other	2,960	-	-	2,960	-	2,960
Debt service:						
Principal	-	150,000	-	150,000	(150,000)	-
Interest	-	184,541	-	184,541	63,375	247,916
Fiscal agent fees	-	3,500	-	3,500	-	3,500
Bond issue costs	-	134,908	1,268	136,176	-	136,176
Depreciation	-	-	-	-	61,867	61,867
Amortization	-	-	-	-	66,682	66,682
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>218,934</b>	<b>475,479</b>	<b>1,268</b>	<b>695,681</b>	<b>41,924</b>	<b>737,605</b>
Excess (deficiency) of revenues over (under) expenditures	188,925	(223,473)	(1,142)	(35,690)	(48,272)	(83,962)
<b>OTHER FINANCING SOURCES / (USES):</b>						
Proceeds from sale of refunding bonds	-	2,745,000	-	2,745,000	(2,745,000)	-
Discount on sale of bonds	-	(31,372)	-	(31,372)	31,372	-
Payments to refunded bonds escrow agent	-	(2,579,605)	-	(2,579,605)	2,579,605	-
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>134,023</b>	<b>-</b>	<b>134,023</b>	<b>(134,023)</b>	<b>-</b>
Change in fund balances / net position	188,925	(89,450)	(1,142)	98,333	(182,295)	(83,962)
<b>FUND BALANCE / NET POSITION</b>						
Beginning of the year	519,727	259,930	132,830	912,487	(884,693)	27,794
Prior period adjustment	-	-	-	-	(398,962)	(398,962)
End of the year	<b>\$ 708,652</b>	<b>\$ 170,480</b>	<b>\$ 131,688</b>	<b>\$ 1,010,820</b>	<b>\$ (1,465,950)</b>	<b>\$ (455,130)</b>

*The accompanying notes are an integral part of this statement.*

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Lakeside Municipal Utility District No. 3 (the “District”) relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (“GAAP”) as applied to governmental entities. GAAP for local governments includes those principles prescribed by the *Governmental Accounting Standards Board* (“GASB”), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created, organized and established on September 1, 2005, by the Texas Commission on Environmental Quality (formerly known as the Texas Water Commission) pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District’s elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the “Board”) which has been elected by District residents or appointed by the Board. The District is not included in any other governmental “reporting entity” as defined by GASB Statement No. 14, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District’s reporting entity.

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

- **Government-wide Statements**

The District’s Statement of Net Position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects depreciation expense on the District’s capital assets, including infrastructure, and deferred charges on refunding bonds.

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

- **Fund Financial Statements**

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

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

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

*Basis of Accounting*

- **Governmental Funds**

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

- **Governmental Funds - continued**

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

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

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

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. The District has made no such accrual for the year ended September 30, 2013. All other revenues of the District are recorded on the accrual basis in all funds.

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

**Budgets and Budgetary Accounting** - A budget was adopted on September 12, 2012, for the General Fund on a basis consistent with GAAP. The District’s Board utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

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

**Capital Assets** - Capital assets, which include land and water, wastewater, and drainage facilities, are reported in the government-wide column in the Statement of Net Position. Public domain (“infrastructure”) capital assets including water, wastewater and drainage facilities, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. Interest incurred during construction of capital facilities is not capitalized.

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

Asset	Years
Water, wastewater, and drainage facilities	50

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

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in both the government-wide and the fund financial statements.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued) –**

*Fund Equity* - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 10 for additional information on those fund balance classifications.

*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.

*Recently Issued Accounting 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 position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period. 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.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

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

Fund balances - total governmental funds		\$ 1,010,820
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds -		
Capital assets	3,366,811	
Less: Accumulated depreciation	<u>(186,895)</u>	3,179,916
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds -		
Bonds payable	(4,900,000)	
Bond issuance discount	89,856	
Deferred charges on refunding, net	177,923	
Accrued interest	<u>(13,645)</u>	<u>(4,645,866)</u>
Net position of governmental activities		<u>\$ (455,130)</u>

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

Changes in fund balances - governmental funds		\$ 98,333
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Bond principal in year paid	150,000	
Interest expenditures in year paid	1,386	
Tax revenue when collected	(6,348)	
Bond refunding activity and related bond discount as other financing source/(use)	<u>(134,023)</u>	11,015
Governmental funds do not report -		
Depreciation	(61,867)	
Amortization of bond discounts	(64,761)	
Amortization of deferred charges on refundings	<u>(66,682)</u>	<u>(193,310)</u>
Change in net position of governmental activities		<u>\$ (83,962)</u>

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**3. CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

**Cash** - At September 30, 2013, the carrying amount of the District's deposits was \$64,217 and the bank balance was \$65,834. The bank balance was covered by federal depository insurance and other pledged collateral.

**Cash Equivalents and Investments** -

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

- Money market mutual funds are required to have weighted average maturities of 90 days or fewer; and
- Other mutual fund investments are required to have weighted average maturities of less than two years.

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

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**3. CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued) –**

At September 30, 2013, the District held the following investments:

Investment	Fair Market	Weighted	Investment Rating	
	Value at 9/30/2013	Average Maturity (Days)	Rating	Rating Agency
TexPool	\$ 400,001	1	AAAm	Standard & Poors
Certificates of deposit	545,000	47	Various	Various
	<u>\$ 945,001</u>			

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool (“TexPool”). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at fair value which is the same as the value of the pool shares. TexPool also has an advisory board to advise on TexPool’s investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

**Concentration of credit risk** - In accordance with the District’s investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2013, the District did not own any investments in individual securities.

**Custodial credit risk-deposits** - Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The government’s investment policy requires that the District’s deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2013, the District’s bank deposits were fully covered by FDIC insurance.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2013**

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**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District and the Williamson Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Assessor-Collector and the Williamson County Tax Assessor-Collector bill and collect the District's property taxes. The Board set current tax rates on September 12, 2012.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2012 tax roll. The tax rate, based on total taxable assessed valuation of \$55,283,266, was \$0.90 on each \$100 valuation and was allocated \$0.4514 to the General Fund and \$0.4486 to the Debt Service Fund. A maximum allowable maintenance tax of \$1.40 was approved by voters in the District in November 2005.

Property taxes receivable were fully collected at September 30, 2013.

The District is prohibited from writing off real property taxes without specific authority from the Texas Legislature.

**5. INTERFUND ACCOUNTS**

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds are made, is as follows at September 30, 2013:

	Interfund	
	Receivables	Payables
<b>General Fund:</b>		
Debt Service Fund	\$ 8,558	\$ -
Capital Projects Fund	500	-
<b>Debt Service Fund -</b>		
General Fund	-	8,558
<b>Capital Projects Fund -</b>		
General Fund	-	500
	\$ 9,058	\$ 9,058

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 10/1/2012	Additions	Deletions	Balance 9/30/2013
Capital assets not being depreciated -				
Land	\$ 273,480	\$ -	\$ -	\$ 273,480
Capital assets being depreciated -				
Water/Wastewater/Drainage Facilities	3,093,331	-	-	3,093,331
Total capital assets being depreciated	3,093,331	-	-	3,093,331
Less accumulated depreciation for -				
Water/Wastewater/Drainage Facilities	(125,028)	(61,867)	-	(186,895)
Total accumulated depreciation	(125,028)	(61,867)	-	(186,895)
Total capital assets being depreciated, net of accumulated depreciation	2,968,303	(61,867)	-	2,906,436
Total capital assets, net	\$ 3,241,783	\$ (61,867)	\$ -	\$ 3,179,916

**7. DEFERRED OUTFLOWS OF RESOURCES**

The following is a summary of changes in deferred outflows of resources for the year ended September 30, 2013:

Deferred charges on bond refundings - September 30, 2012	\$ -
Additions from Series 2013 refundings	244,605
Retirements from Series 2013 refundings	(66,682)
Deferred charges on bond refundings - September 30, 2013	\$ 177,923

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**8. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2013:

	Unlimited Tax Bonds
Bonds payable at October 1, 2012	\$ 4,640,000
Bonds issued	2,745,000
Bonds refunded	(2,335,000)
Bonds retired	(150,000)
Bond discount, net of accumulated amortization	(89,856)
	\$ 4,810,144

Bonds payable at September 30, 2013, were comprised of the following individual issues:

**Unlimited Tax Bonds:**

\$310,000 - 2008 Unlimited Tax Bonds payable serially through the year 2018 at interest rates which range from 4.875% to 6.000%.

\$175,000 - 2010 Unlimited Tax Bonds payable serially through the year 2017 at interest rates which range from 4.50% to 4.50%.

\$1,695,000 - 2012 Unlimited Tax Bonds payable serially through the year 2032 at interest rates which range from 2.00% to 4.00%.

**Unlimited Tax Refunding Bonds:**

\$2,720,000 - 2013 Unlimited Tax Bonds payable serially through the year 2032 at interest rates which range from 2.00% to 3.90%.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**8. BONDED DEBT (continued) –**

The annual requirements to amortize all bonded debt at September 30, 2013, including interest, are as follows:

<b>Year Ended September 30,</b>	<b>Annual Requirements for All Series</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 175,000	\$ 170,322	\$ 345,322
2015	190,000	163,622	353,622
2016	190,000	156,297	346,297
2017	200,000	149,872	349,872
2018	220,000	142,872	362,872
2019-2023	1,185,000	617,243	1,802,243
2024-2028	1,455,000	409,387	1,864,387
2029-2032	1,285,000	119,408	1,404,408
	\$ 4,900,000	\$ 1,929,023	\$ 6,829,023

The total amount of bonds approved by the voters of the District but not issued is \$54,750,000 at September 30, 2013.

\$170,480 is available in the Debt Service Fund to service the bonded debt.

On April 2, 2013, the District issued unlimited tax refunding bonds of \$2,745,000 (par value) with interest rates of 2.0% to 3.9% to advance refund \$2,335,000 of Series 2008 and Series 2011 bonds in order to lower its overall debt service requirements. The first optional redemption date of the refunded bonds is September 1, 2014. The net proceeds of \$2,579,866 (after payment of the re-offering discount, underwriting fees, insurance and other issuance costs) were used for the following: \$2,579,605 was deposited with an escrow agent to provide the debt service payment on the portion of the bonds advance refunded, and \$261 was deposited in the debt service fund for future interest and principal payments. As a result, \$2,335,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements. At September 30, 2013, the entire \$2,335,000 of outstanding bonds are considered defeased as none of the refunded bonds were retired prior to year end. The reacquisition price exceeded the net carrying amount of the old debt by \$244,605; which will be amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued. The advance refunding resulted in an economic gain of \$82,472.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**8. COMMITMENTS AND CONTINGENCIES**

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of September 30, 2013, has recorded no liability pertaining to such costs.

**9. RISK MANAGEMENT**

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

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**10. FUND BALANCES**

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

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. The District had no such amounts.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances are included in the Governmental Funds Balance Sheet on page FS-1.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

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

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

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**11. PRIOR PERIOD ADJUSTMENT**

GASB Statement No. 65 was implemented during the current fiscal year. In accordance with GASB Statement No. 65, bond issuance costs previously reported as assets in the Statement of Net Position 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	\$ 27,794
Effect of Adjustments	(398,962)
New Position - October 1, 2012, as restated	<u>\$ (371,168)</u>

**12. SUBSEQUENT EVENTS**

In December 2013, the District issued \$2,250,000 of Unlimited Tax Bonds, Series 2013A. Proceeds from the bonds will be used to finance construction and other District development costs and certain bond related costs. The Series 2013A bonds were sold at an interest rate of 4.43% with principal maturities through September 2033.

**REQUIRED  
SUPPLEMENTAL INFORMATION**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**SEPTEMBER 30, 2013**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes, including penalties and interest	\$ 253,390	\$ 247,223	\$ 6,167
Service accounts, including penalties	41,289	43,223	(1,934)
Tap connections	110,600	98,000	12,600
Interest	2,580	1,200	1,380
<b>TOTAL REVENUES</b>	<u>407,859</u>	<u>389,646</u>	<u>18,213</u>
<b>EXPENDITURES:</b>			
Current:			
Landscaping	46,081	31,476	(14,605)
Utilities	13,552	14,400	848
Repairs and maintenance	-	3,000	3,000
Director fees, including payroll taxes	15,663	11,734	(3,929)
Legal fees	41,097	33,000	(8,097)
Engineering fees	66,716	39,000	(27,716)
Financial advisor fees	1,059	1,254	195
Accounting fees	17,550	17,550	-
Audit fees	11,500	11,500	-
Insurance	1,269	1,700	431
Tax appraisal/collection	1,487	1,200	(287)
Other	2,960	4,900	1,940
<b>TOTAL EXPENDITURES</b>	<u>218,934</u>	<u>170,714</u>	<u>(48,220)</u>
Excess of revenue over expenditures	188,925	<u>\$ 218,932</u>	<u>\$ (30,007)</u>
<b>FUND BALANCE:</b>			
Beginning of the year	<u>519,727</u>		
End of the year	<u>\$ 708,652</u>		

**TEXAS**  
**SUPPLEMENTAL INFORMATION**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-1. SERVICES AND RATES**  
**SEPTEMBER 30, 2013**

**1. Services Provided by the District during the Fiscal Year:<sup>(1)</sup>**

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

**2. Retail Service Providers**

**a. Retail Rates Based on 5/8" Meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 16.00	-	N	\$ 3.90	0 to 7,000
				\$ 4.10	7,000 to 14,999
				\$ 4.80	15,000 to Unlimited
WASTEWATER:	\$ 40.00	-	Y	\$ -	
SURCHARGE:	\$ -	-		\$ -	

District employs winter averaging for wastewater usage?      Yes       No

Total charges per 10,000 gallons usage:      Water      \$ 55.60      Wastewater      \$ 40.00

**b. Water and Wastewater Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered				
< 3/4"				
1"				
1 1/2"				
2"				
3"				
4"				
6"				
8"				
10"				
Total Water	(1)	384.0		
Total Wastewater	(1)	382.0		

<sup>(1)</sup> The District is serviced by the City of Pflugerville.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-1. SERVICES AND RATES**  
**SEPTEMBER 30, 2012**

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

Gallons pumped into system: \_\_\_\_\_ (1)

Gallons billed to customers: \_\_\_\_\_ (1)

**Water Accountability Ratio**

(Gallons billed / Gallons Pumped)

N/A

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

Does the District assess standby fees?                      Yes       No

If yes, Date of the most recent Commission Order: \_\_\_\_\_

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

If yes, Date of the most recent Commission Order: \_\_\_\_\_

**5. Location of District**

County(ies) in which district is located: Travis and Williamson

Is the District located entirely within one county?                      Yes       No

Is the District located within a city?                      Entirely       Partly       Not at all

City(ies) in which district is located: N/A

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

Entirely       Partly       Not at all

ETJ's in which district is located: Pflugerville

Are Board members appointed by an office outside the district?

Yes       No

If Yes, by whom? \_\_\_\_\_

<sup>(1)</sup> The District is serviced by the City of Pflugerville.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-2. GENERAL FUND EXPENDITURES**  
**SEPTEMBER 30, 2013**

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Personnel Expenditures (including benefits)	\$	-
Professional Fees:		
Auditing		11,500
Legal		41,097
Engineering		66,716
Financial Advisor		1,059
Purchased Services For Resale:		
Bulk Water and Wastewater Purchases		-
Contracted Services:		
Bookkeeping		17,550
General Manager		-
Appraisal District/Tax Collector		1,487
Other Contracted Services		46,081
Utilities		13,552
Repairs and Maintenance		-
Chemicals		-
Administrative Expenditures:		
Directors' Fees		15,663
Office Supplies		-
Insurance		1,269
Other Administrative Expenditures		2,960
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		-
Bad Debt		-
Parks and Recreation		-
Other Expenditures		-
<b>TOTAL EXPENDITURES</b>	<b>\$</b>	<b>218,934</b>

Number of persons employed by the District:

Full-Time     Part-Time

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-3. TEMPORARY INVESTMENTS**  
**SEPTEMBER 30, 2013**

<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable at End of Year</b>
<b>General Fund:</b>					
TexPool	XXX0001	Varies	Daily	\$ 88,775	\$ -
Certificate of Deposit	XXX8839	0.6500%	10/17/2013	150,000	442
Certificate of Deposit	XXX0156	0.3500%	10/21/2013	100,000	154
Certificate of Deposit	XXX5192	0.5000%	12/9/2013	150,000	225
Certificate of Deposit	XXX3622	0.4000%	12/13/2013	<u>145,000</u>	<u>166</u>
Total				<u>633,775</u>	<u>987</u>
<b>Debt Service Fund:</b>					
TexPool	XXX0002	Varies	Daily	11,172	-
TexPool	XXX0003	Varies	Daily	119,966	-
TexPool	XXX0007	Varies	Daily	<u>47,900</u>	<u>-</u>
Total				<u>179,038</u>	<u>-</u>
<b>Capital Projects Fund-</b>					
TexPool	XXX0008	Varies	Daily	<u>132,188</u>	<u>-</u>
Total				<u>132,188</u>	<u>-</u>
Total - All Funds				<u>\$ 945,001</u>	<u>\$ 987</u>

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-4. TAXES LEVIED AND RECEIVABLE**  
**SEPTEMBER 30, 2013**

			<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Taxes Receivable, Beginning of Year</b>			\$ 3,275	\$ 3,073
2012 Original Tax Levy, less abatements			249,800	248,251
Tax adjustments			769	763
Total to be accounted for			<u>253,844</u>	<u>252,087</u>
Tax collections:				
Current year			250,569	249,014
Prior years			3,275	3,073
Total collections			<u>253,844</u>	<u>252,087</u>
<b>Taxes Receivable, End of Year</b>			<u>\$ -</u>	<u>\$ -</u>
<b>Taxes Receivable, By Years</b>				
2011			\$ -	\$ -
2012			-	-
<b>Taxes Receivable, End of Year</b>			<u>\$ -</u>	<u>\$ -</u>
<b>Property Valuations-</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Land and improvements	<u>\$ 55,283,266</u>	<u>\$ 38,813,777</u>	<u>\$ 32,969,132</u>	<u>\$ 30,526,024</u>
<b>Total Property Valuations</b>	<u>\$ 55,283,266</u>	<u>\$ 38,813,777</u>	<u>\$ 32,969,132</u>	<u>\$ 30,526,024</u>
<b>Tax Rates per \$100 Valuation:</b>				
Debt Service tax rates	\$ 0.4486	\$ 0.4357	\$ 0.3955	\$ 0.2771
Maintenance tax rates	0.4514	0.4643	0.5045	0.6229
<b>Total Tax Rates per \$100 Valuation</b>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>
<b>Original Tax Levy</b>	<u>\$ 498,051</u>	<u>\$ 349,324</u>	<u>\$ 296,722</u>	<u>\$ 274,734</u>
<b>Percent of Taxes Collected to Taxes Levied **</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

**A maximum maintenance tax rate of \$1.40 per \$100 valuation was approved by voters in the District in November 2005.**

\*\*Calculated as taxes collected in current and previous years divided by tax levy.

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**  
**SEPTEMBER 30, 2013**

Fiscal Year Ending	Unlimited Tax Bonds Series 2008			Unlimited Tax Bonds Series 2010			Unlimited Tax Bonds Series 2012			Unlimited Tax Refunding Bonds Series 2013			Total - All Requirements		
	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Total Principal	Total Interest	Total
2014	\$ 55,000	\$ 16,575	\$ 71,575	\$ 40,000	\$ 7,425	\$ 47,425	\$ 50,000	\$ 57,548	\$ 107,548	\$ 30,000	\$ 88,774	\$ 118,774	\$ 175,000	\$ 170,322	\$ 345,322
2015	60,000	13,275	73,275	45,000	5,625	50,625	55,000	56,548	111,548	30,000	88,174	118,174	190,000	163,622	353,622
2016	60,000	9,675	69,675	45,000	3,600	48,600	55,000	55,448	110,448	30,000	87,574	117,574	190,000	156,297	346,297
2017	65,000	6,750	71,750	45,000	1,800	46,800	60,000	54,348	114,348	30,000	86,974	116,974	200,000	149,872	349,872
2018	70,000	3,500	73,500	-	-	-	65,000	52,998	117,998	85,000	86,374	171,374	220,000	142,872	362,872
2019	-	-	-	-	-	-	65,000	51,373	116,373	150,000	84,461	234,461	215,000	135,834	350,834
2020	-	-	-	-	-	-	70,000	49,585	119,585	155,000	80,899	235,899	225,000	130,484	355,484
2021	-	-	-	-	-	-	75,000	47,485	122,485	165,000	76,830	241,830	240,000	124,315	364,315
2022	-	-	-	-	-	-	80,000	45,235	125,235	170,000	71,880	241,880	250,000	117,115	367,115
2023	-	-	-	-	-	-	85,000	42,715	127,715	170,000	66,780	236,780	255,000	109,495	364,495
2024	-	-	-	-	-	-	90,000	39,910	129,910	175,000	61,255	236,255	265,000	101,165	366,165
2025	-	-	-	-	-	-	95,000	36,805	131,805	185,000	55,568	240,568	280,000	92,373	372,373
2026	-	-	-	-	-	-	100,000	33,385	133,385	190,000	49,093	239,093	290,000	82,478	372,478
2027	-	-	-	-	-	-	105,000	29,685	134,685	200,000	42,443	242,443	305,000	72,128	377,128
2028	-	-	-	-	-	-	115,000	25,800	140,800	200,000	35,443	235,443	315,000	61,243	376,243
2029	-	-	-	-	-	-	120,000	21,200	141,200	210,000	28,193	238,193	330,000	49,393	379,393
2030	-	-	-	-	-	-	130,000	16,400	146,400	220,000	20,580	240,580	350,000	36,980	386,980
2031	-	-	-	-	-	-	135,000	11,200	146,200	230,000	12,330	242,330	365,000	23,530	388,530
2032	-	-	-	-	-	-	145,000	5,800	150,800	95,000	3,705	98,705	240,000	9,505	249,505
	<u>\$ 310,000</u>	<u>\$ 49,775</u>	<u>\$ 359,775</u>	<u>\$ 175,000</u>	<u>\$ 18,450</u>	<u>\$ 193,450</u>	<u>\$ 1,695,000</u>	<u>\$ 733,468</u>	<u>\$ 2,428,468</u>	<u>\$ 2,720,000</u>	<u>\$ 1,127,330</u>	<u>\$ 3,847,330</u>	<u>\$ 4,900,000</u>	<u>\$ 1,929,023</u>	<u>\$ 6,829,023</u>

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-6. CHANGES IN LONG-TERM BONDED DEBT**  
**SEPTEMBER 30, 2013**

	<u>Bond Issue Series 2008</u>	<u>Bond Issue Series 2010</u>	<u>Bond Issue Series 2012</u>	<u>Bond Issue Series 2013</u>	<u>Total</u>
Interest Rate	4.875% - 6.000%	4.00% - 5.40%	2.00% - 4.00%	2.00% - 3.90%	
Dates Interest Payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity Dates	9/1/2018	9/1/2017	9/1/2032	9/1/2032	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 1,625,000	\$ 1,290,000	\$ 1,725,000	\$ -	\$ 4,640,000
Bonds Sold During the Current Fiscal Year	-	-	-	2,745,000	2,745,000
Retirements During the Current Fiscal Year:					
Principal	(55,000)	(40,000)	(30,000)	(25,000)	(150,000)
Refunded	<u>(1,260,000)</u>	<u>(1,075,000)</u>	<u>-</u>	<u>-</u>	<u>(2,335,000)</u>
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 310,000</u>	<u>\$ 175,000</u>	<u>\$ 1,695,000</u>	<u>\$ 2,720,000</u>	<u>\$ 4,900,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 54,532</u>	<u>\$ 36,852</u>	<u>\$ 58,148</u>	<u>\$ 37,197</u>	<u>\$ 186,729</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>				
Bond Authority:	<u>Unlimited Tax Bonds*</u>	<u>Recreational Facilities*</u>			
Amount Authorized by Voters	\$ 59,475,000	\$ -			
Amount Issued	<u>(4,725,000)</u>	<u>-</u>			
Remaining To Be Issued	<u>\$ 54,750,000</u>	<u>\$ -</u>			

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

Debt Service Fund Cash, Cash Equivalents, and  
Temporary Investment balances as of September 30, 2013: \$ 179,038

Average Annual Debt Service Payment (Principal & Interest)  
for the remaining term of all debt \$ 359,422

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL AND DEBT SERVICE FUNDS-FIVE YEARS**  
**SEPTEMBER 30, 2013**

	Amounts					Percent of Fund Total Revenues				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
<b>GENERAL FUND REVENUES AND OTHER SOURCES:</b>										
Property taxes, including penalties and interest	\$ 253,390	\$ 177,035	\$ 171,419	\$ 189,700	\$ 122,103	62.1%	58.0%	59.6%	74.2%	67.8%
Service accounts, including penalties	41,289	35,102	27,093	20,696	17,175	10.1%	11.5%	9.4%	8.1%	9.5%
Tap connections	110,600	91,000	87,500	44,100	40,600	27.2%	29.8%	30.4%	17.2%	22.6%
Interest	2,580	1,902	1,465	1,047	259	0.6%	0.6%	0.5%	0.4%	0.1%
Other	-	34	98	166	-	-	0.1%	0.1%	0.1%	-
<b>TOTAL GENERAL FUND REVENUES AND OTHER SOURCES</b>	<b>407,859</b>	<b>305,073</b>	<b>287,575</b>	<b>255,709</b>	<b>180,137</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>GENERAL FUND EXPENDITURES-</b>										
Current:										
Director fees, including payroll taxes	15,663	12,111	10,334	10,980	9,527	3.8%	4.0%	3.6%	4.3%	5.3%
Legal fees	41,097	32,362	29,474	27,565	29,324	10.0%	10.5%	10.2%	10.8%	16.3%
Engineering fees	66,716	32,691	25,914	43,007	35,431	16.3%	10.6%	9.0%	16.8%	19.7%
Financial advisor fees	1,059	1,218	973	1,142	1,082	0.3%	0.4%	0.3%	0.4%	0.6%
Accounting fees	17,550	17,550	17,550	17,550	17,550	4.3%	5.8%	6.1%	6.9%	9.7%
Audit fees	11,500	11,000	10,500	10,000	14,500	2.8%	3.6%	3.7%	3.9%	8.0%
Utilities	13,552	10,854	8,805	6,241	5,665	3.3%	3.6%	3.1%	2.4%	3.1%
Insurance	1,269	804	200	960	1,716	0.3%	0.3%	0.1%	0.4%	1.0%
Landscaping	46,081	30,666	29,668	18,321	6,036	11.3%	10.1%	10.3%	7.2%	3.4%
Tax appraisal/collection	1,487	1,050	1,036	1,188	1,256	0.4%	0.3%	0.4%	0.5%	0.7%
Other	2,960	1,382	2,387	402	832	0.7%	0.5%	0.8%	0.2%	0.5%
Operating transfer	-	7,283	-	-	-	-	2.4%	-	-	-
Capital outlay	-	-	7,400	10,897	-	-	-	2.6%	4.3%	-
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>218,934</b>	<b>158,971</b>	<b>144,241</b>	<b>148,253</b>	<b>122,919</b>	<b>53.5%</b>	<b>52.1%</b>	<b>50.2%</b>	<b>58.1%</b>	<b>68.3%</b>
<b>EXCESS OF GENERAL FUND REVENUES AND OTHER SOURCES OVER EXPENDITURES</b>	<b>\$ 188,925</b>	<b>\$ 146,102</b>	<b>\$ 143,334</b>	<b>\$ 107,456</b>	<b>\$ 57,218</b>	<b>46.5%</b>	<b>47.9%</b>	<b>49.8%</b>	<b>41.9%</b>	<b>31.7%</b>
<b>DEBT SERVICE FUND REVENUES AND OTHER SOURCES:</b>										
Property tax revenues, including penalties	\$ 251,626	\$ 166,130	\$ 132,661	\$ 84,307	\$ 49,224	60.3%	47.7%	98.5%	31.5%	97.3%
Interest	380	1,043	1,984	1,973	1,359	0.1%	0.3%	1.5%	0.7%	2.7%
Bond proceeds, net of payment to refunding agent	165,395	181,421	-	181,698	-	39.6%	52.0%	-	67.8%	-
<b>TOTAL DEBT SERVICE FUND REVENUES AND OTHER SOURCES</b>	<b>417,401</b>	<b>348,594</b>	<b>134,645</b>	<b>267,978</b>	<b>50,583</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>DEBT SERVICE FUND EXPENDITURES AND OTHER USES -</b>										
Bond principal	150,000	85,000	-	-	-	35.9%	24.4%	-	-	-
Bond interest	184,541	158,240	158,240	123,379	89,883	44.2%	45.4%	117.5%	46.0%	177.7%
Fiscal agent fees and other	140,938	2,929	1,974	1,437	1,340	33.8%	0.8%	1.5%	0.5%	2.6%
Bond discount	31,372	47,437	-	39,750	-	7.5%	13.6%	-	14.8%	-
<b>TOTAL DEBT SERVICE FUND EXPENDITURES AND OTHER USES</b>	<b>506,851</b>	<b>293,606</b>	<b>160,214</b>	<b>164,566</b>	<b>91,223</b>	<b>121.4%</b>	<b>84.2%</b>	<b>119.0%</b>	<b>61.3%</b>	<b>180.3%</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b>	<b>\$ (89,450)</b>	<b>\$ 54,988</b>	<b>\$ (25,569)</b>	<b>\$ 103,412</b>	<b>\$ (40,640)</b>	<b>-21.4%</b>	<b>15.8%</b>	<b>(19.0)%</b>	<b>38.7%</b>	<b>(80.3)%</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>384</b>	<b>319</b>	<b>250</b>	<b>196</b>	<b>150</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>382</b>	<b>316</b>	<b>248</b>	<b>193</b>	<b>149</b>					

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2013**

**Complete District Mailing Address:** 100 Congress Ave., Suite 1300  
Austin, TX 78701

**District Business Telephone Number:** (512) 435-2300

**Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):** July 30, 2013

**Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)** \$7,200

<u>Name and Address:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid * 9/30/13</u>	<u>Expense Reimbursements 9/30/13</u>	<u>Title at Year End</u>
<i>Current Board Members:</i>				
<b>Tom Corbett</b>	(Elected) 5/08/2010 - 11/04/2014	\$ 7,200	\$ -	President
<b>Mike Zeniecki</b>	(Elected) 11/06/2012 - 11/08/2016	\$ 2,400	\$ -	Vice-President
<b>John A. Howell</b>	(Elected) 11/06/2012 - 11/08/2016	\$ 1,950	\$ -	Secretary
<b>Tim Coffelt</b>	(Appointed) 7/10/2013 - 11/04/2014	\$ 450	\$ -	Treasurer
<b>Mark Mathews</b>	(Elected) 5/08/2010 - 11/04/2014	\$ 1,650	\$ -	Assistant Sec. / Treasurer
<i>Former Board Members:</i>				
<b>Michael Gold</b>	(Elected) 5/08/2010 - 11/04/2014	\$ 750	\$ -	Vice-President
<b>Turk McMurry</b>	(Elected) 11/7/2012 - 11/08/2016	\$ 300	\$ -	Secretary
<i>Consultants:</i>				
		<u>Fiscal Year Payments</u>		
<b>Armbrust &amp; Brown, PLLC</b>	9/13/2006	\$ 42,697	\$ -	Attorney
		\$ 20,000	\$ -	Bond Related Services
<b>Gray &amp; Associates, Inc.</b>	9/6/2005	\$ 66,017	\$ -	Engineer
<b>Bott &amp; Douthitt, PLLC</b>	7/1/2009	\$ 17,550	\$ 150	District Accountant
<b>Southwest Securities</b>	9/6/2005	\$ 2,463	\$ -	Financial Advisor
		\$ 33,590	\$ -	Bond Related Services
<b>Maxwell Locke &amp; Ritter LLP</b>	10/8/2008	\$ 11,500	\$ -	Auditor
<b>Travis County Tax Collector</b>	10/11/2006	\$ 377	\$ -	Tax Collector

\*Fees of Office are the amounts actually paid to a director during the district's fiscal year.

**OTHER  
SUPPLEMENTAL INFORMATION**

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**OSI-1. PRINCIPAL TAXPAYERS**  
**SEPTEMBER 30, 2013**

Taxpayer	Type of Property	Tax Roll Year		
		2013	2012	2011
Gehan Homes Ltd.	NA	\$ 914,068	\$ 1,012,460	\$ 284,818
Commons at Rowe Lane LP	NA	492,835	1,272,066	551,524
Homeowner	NA	431,185	425,513	414,852
Gehan Homes Ltd.	NA	305,870	-	-
Homeowner	NA	280,988	267,949	257,507
Homeowner	NA	280,191	264,695	250,918
Homeowner	NA	272,906	264,438	249,319
Homeowner	NA	271,047	256,149	249,151
Homeowner	NA	270,556	255,972	248,145
Homeowner	NA	268,439	255,798	-
Commons at Rowe Lane LP	NA	-	547,384	364,071
Highland Homes-Austin Ltd.	NA	-	-	469,238
<b>Total</b>		<b>\$ 3,788,085</b>	<b>\$ 4,822,424</b>	<b>\$ 3,339,543</b>
Percent of Assessed Valuation before Adjustments		<b>5.5%</b>	<b>8.7%</b>	<b>8.6%</b>

**LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3**  
**OSI-2. ASSESSED VALUE BY CLASSIFICATION**  
**SEPTEMBER 30, 2013**

Type of Property	Tax Roll Year					
	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 66,650,229	97.6%	\$ 52,202,828	94.4%	\$ 37,115,666	95.6%
Vacant Lot	130,507	0.2%	270,857	0.5%	713,258	1.8%
Qualified Ag Land	57,560	0.1%	57,560	0.1%	57,910	0.1%
Non-Qualified Land	576,451	0.8%	576,451	1.0%	723,335	1.9%
Commercial Personal Property	334,646	0.5%	327,956	0.6%	132,993	0.3%
Residential Inventory	1,718,047	2.5%	2,995,163	5.4%	599,981	1.5%
Totally Exempt Property	73,500	0.1%	71,750	0.1%	71,750	0.2%
Subtotal	69,540,940	101.8%	56,502,565	102.2%	39,414,893	101.5%
Plus/Minus: Adjustments	(1,225,104)	-1.8%	(1,219,299)	-2.2%	(601,116)	-1.5%
Total	\$ 68,315,836	100.0%	\$ 55,283,266	100.0%	\$ 38,813,777	100.0%

**APPENDIX B**  
**Form of Bond Counsel Opinion**

# FREEMAN & CORBETT

PHONE (512) 451-6689

8500 Bluffstone Cove, Suite B-104  
Austin, Texas 78759

(512) 453-0865

December 11, 2014

We have acted as Bond Counsel for Lakeside Municipal Utility District No. 3 (the "District") in connection with the issuance of bonds (the "Bonds") by the District described as follows:

LAKESIDE MUNICIPAL UTILITY DISTRICT NO. 3 UNLIMITED TAX BONDS, SERIES 2014, dated December 1, 2014, in the aggregate principal amount of \$2,000,000, maturing at the times and bearing interest at the respective rates per annum as provided in the resolution authorizing issuance of the Bonds (the "Bond Resolution").

The Bonds maturing on or after September 1, 2023, are redeemable, in whole or in part, at the option of the District on September 1, 2020, or on any date thereafter, at a price of the par value thereof plus accrued interest to the date of redemption, in the manner provided in the Bond Resolution. Additionally, the Bonds maturing in September 1, 2023, September 1, 2025, September 1, 2029, September 1, 2032 and September 1, 2034 are subject to mandatory redemption prior to maturity at the times and in the amounts provided in the Bond Resolution. The Bonds are registered as to both principal and interest and are transferable, registrable, and payable in the manner provided in the Bond Resolution.

WE HAVE ACTED AS BOND COUNSEL 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. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon certificates executed by officers, directors, agents and representatives of the District. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the District, customary certificates of officers, agents and representatives of the District and other certified showings related to the authorization and issuance of the Bonds. We have also examined the executed Initial Bond No. I-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the District has been validly created and organized and that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; that therefore the Bonds are valid and legally binding obligations of the District, and all taxable property in the District is subject to the levy of ad valorem taxes to pay same, without legal limitation as to rate or amount.

December 11, 2014

Page 2

The District has reserved the right in the Bond Resolution to issue additional bonds payable from ad valorem taxes on a parity with the pledge to pay the Bonds. The District has also reserved the right to issue revenue bonds, special project bonds and refunding bonds. Reference is made to the Bond Resolution for a complete description of the District's right to issue additional bonds.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas or any other political subdivision or agency. The District's obligations with respect to the Bonds are subject to limitation by applicable federal bankruptcy laws and other laws which may from time to time affect the rights of creditors of political subdivisions.

We express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Our opinions are based on existing statutes, court decisions and other 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 this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any statutes, case law or other law that may hereafter occur or become effective.

**APPENDIX C**  
**Form of Special Tax Counsel Opinion**

LAW OFFICES

**McCALL, PARKHURST & HORTON L.L.P.**

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SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: (210) 225-2800  
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December 18, 2014

We have acted as Special Tax Counsel in connection with the issuance and sale by the Lakeside Municipal Utility District No. 3 (the "Issuer") of \$2,000,000 aggregate principal amount of its Unlimited Tax Bonds, Series 2014 (the "Bonds").

In connection with the issuance of the Bonds, we have reviewed the following:

- (a) the Resolution of the Issuer authorizing the issuance and sale of the Bonds;
- (b) schedules prepared by, and representations of, Public Finance Group LLC with respect to the issue price and yield of the Bonds and the purchase price;
- (c) the Federal Tax Certificate of the Issuer dated as of the date of this opinion;
- (d) the opinion of Freeman & Corbett as Bond Counsel dated as of the date of this opinion;
- (e) covenants of the Issuer regarding the use of the facilities financed with the proceeds of the Bonds and the use and investment of the proceeds of the Bonds and other funds of the Issuer; and
- (f) such other documents as we deem relevant and necessary in rendering this opinion.

IN OUR OPINION, except as discussed below, 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 RENDERING THIS OPINION, we have relied upon the opinion of Freeman & Corbett referred to in subparagraph (d) above for authority that the Bonds are validly issued under applicable state and local laws and are payable from the proceeds of ad valorem taxes levied, without legal limit as to rate or amounts, on all taxable property located within the Issuer; and the representations, opinion, certificate and covenants referred to in subparagraphs (b), (e), and (f) above.

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.

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.

Respectfully yours,

**APPENDIX D**  
**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
31 West 52nd Street, New York, N.Y. 10019  
(212) 974-0100