

OFFICIAL STATEMENT DATED OCTOBER 15, 2014

NEW ISSUE-BOOK-ENTRY-ONLY

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

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

\$6,200,000

North Austin Municipal Utility District No. 1

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

UNLIMITED TAX AND REVENUE BONDS, SERIES 2014

Dated: November 1, 2014

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

Interest on the bonds described above (the "Bonds") will accrue from November 1, 2014 and is payable February 1, 2015 and each August 1 and February 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 North Austin Municipal Utility District No. 1 (the "District") and are not obligations of the City of Austin, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.

The proceeds of the Bonds will be used to finance the District's share of costs for the following projects: (i) fire hydrant repair and replacement; (ii) booster pump station building and appurtenances; and (iii) Rattan Creek drainage study and modifications.

In addition, proceeds of the Bonds will be used to (i) capitalize approximately twenty-one months' interest requirements on the Bonds; (ii) pay certain engineering costs; and (iii) pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

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



---

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

---

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 McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about November 20, 2014 in Austin, Texas.

**MATURITIES**  
**(Due August 1)**

Due	Principal Amount	Interest Rate <sup>(a)</sup>	Initial		Due	*	Principal Amount	Interest Rate <sup>(a)</sup>	Initial	
			Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>					Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>
2015	\$ 25,000	2.000%	0.450%	65743CEU8	2022	*	\$ 375,000	2.250%	2.100%	65743CFB9
2016	25,000	2.000%	0.650%	65743CEV6	2023	*	400,000	2.250%	2.200%	65743CFC7
2017	25,000	2.000%	0.850%	65743CEW4	2024	*	400,000	2.500%	2.300%	65743CFD5
2018	25,000	2.000%	1.150%	65743CEX2	2025	*	425,000	2.500%	2.400%	65743CFE3
2019	325,000	2.000%	1.300%	65743CEY0	2026	*	425,000	2.750%	2.500%	65743CFF0
2020	350,000	2.000%	1.550%	65743CEZ7	2027	*	450,000	2.750%	2.550%	65743CFG8
2021	* 350,000	2.000%	1.850%	65743CFA1	2028	*	475,000	3.000%	2.600%	65743CFH6

\$2,125,000 3.200% <sup>(a)</sup> Term Bond due August 1, 2032\* Yield <sup>(b)</sup> 3.200% CUSIP # 65743CFM5 <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 August 1, 2021 in whole or from time to time in part, on August 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 August 1, 2032 (the "Term Bond") 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 100.09% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 2.841947%.
- (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 November 1, 2014 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Initial Purchaser, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

**TABLE OF CONTENTS**

<b>USE OF INFORMATION IN OFFICIAL STATEMENT.....</b>	<b>4</b>	Location .....	30
<b>SALE AND DISTRIBUTION OF THE BONDS .....</b>	<b>4</b>	Historical and Current Status of Development.....	30
Award of the Bonds .....	4	<b>THE SYSTEM .....</b>	<b>32</b>
Prices and Marketability .....	4	Regulation .....	32
Securities Laws .....	4	Water Supply and Distribution.....	32
<b>MUNICIPAL BOND RATINGS AND INSURANCE.....</b>	<b>5</b>	Wastewater Collection and Treatment .....	32
<b>BOND INSURANCE .....</b>	<b>5</b>	Storm Drainage .....	32
Bond Insurance Policy .....	5	100-Year Flood Plain .....	32
Build America Mutual Assurance Company.....	5	Water and Wastewater Operations .....	32
<b>OFFICIAL STATEMENT SUMMARY .....</b>	<b>7</b>	Operating Revenues and Expenses Statement - Table 2.....	33
<b>THE DISTRICT.....</b>	<b>7</b>	<b>DEBT SERVICE REQUIREMENTS - TABLE 3 .....</b>	<b>34</b>
<b>THE BONDS .....</b>	<b>7</b>	<b>FINANCIAL STATEMENT.....</b>	<b>35</b>
<b>INVESTMENT CONSIDERATIONS.....</b>	<b>9</b>	Assessed Value - Table 4 .....	35
<b>SELECTED FINANCIAL INFORMATION.....</b>	<b>10</b>	Unlimited Tax Bonds Authorized but Unissued - Table 5.....	35
<b>INTRODUCTION.....</b>	<b>11</b>	Outstanding Bonds - Table 6.....	36
<b>THE BONDS .....</b>	<b>11</b>	Cash and Investment Balances - Table 7.....	36
General Description .....	11	Investment Authority and Investment Practices of the District .....	36
Redemption.....	11	Current Investments - Table 8.....	38
DTC Redemption Provision.....	12	Estimated Overlapping Debt Statement .....	38
Termination of Book-Entry-Only System.....	12	Overlapping Taxes for 2014.....	39
Replacement Bonds .....	13	<b>TAX DATA .....</b>	<b>39</b>
Authority for Issuance .....	13	Classification of Assessed Valuation - Table 9.....	39
Source of and Security for Payment.....	13	Tax Collections - Table 10.....	40
Payment Record.....	14	District Tax Rates - Table 11 .....	40
Flow of Funds.....	14	Tax Rate Limitation .....	40
Defeasance of Outstanding Bonds .....	14	Maintenance Tax.....	40
Paying Agent/Registrar .....	15	Principal Taxpayers - Table 12 .....	41
Record Date .....	16	Tax Adequacy for Debt Service .....	41
Issuance of Additional Debt.....	16	Debt Service Fund Management Index .....	41
Legal Investment and Eligibility to Secure Public Funds in		<b>TAXING PROCEDURES.....</b>	<b>42</b>
Texas .....	16	Authority to Levy Taxes .....	42
Specific Tax Covenants .....	16	Property Tax Code and County Wide Appraisal District .....	42
Additional Covenants .....	17	Property Subject to Taxation by the District .....	42
Remedies in Event of Default .....	17	Valuation of Property for Taxation .....	43
Consolidation.....	17	District and Taxpayer Remedies .....	43
Annexation .....	17	Levy and Collection of Taxes .....	43
Alteration of Boundaries.....	17	District's Rights In The Event Of Tax Delinquencies.....	44
Approval of the Bonds .....	18	Effect of FIRREA on Tax Collections .....	44
Amendments to the Bond Order .....	18	<b>LEGAL MATTERS .....</b>	<b>44</b>
<b>BOOK-ENTRY-ONLY SYSTEM .....</b>	<b>18</b>	Legal Opinions.....	44
<b>USE AND DISTRIBUTION OF BOND PROCEEDS.....</b>	<b>20</b>	No-Litigation Certificate .....	44
<b>INVESTMENT CONSIDERATIONS.....</b>	<b>21</b>	No Material Adverse Change.....	45
General .....	21	<b>TAX MATTERS.....</b>	<b>45</b>
Factors Affecting Taxable Values and Tax Payments.....	21	Opinion .....	45
No Requirement to Build on Developed Lots.....	22	Federal Income Tax Accounting Treatment of Original Issue	
Tax Collections and Foreclosure Remedies .....	22	Discount .....	45
Registered Owners' Remedies.....	22	Collateral Federal Income Tax Consequences.....	46
Bond Insurance Risks .....	22	State, Local and Foreign Taxes .....	46
Bankruptcy Limitation to Registered Owners' Rights.....	23	Qualified Tax-Exempt Obligations for Financial Institutions .....	46
The Effect of the Financial Institutions Act of 1989 on Tax		<b>CONTINUING DISCLOSURE OF INFORMATION .....</b>	<b>47</b>
Collections of the District .....	23	Annual Reports .....	47
Marketability .....	23	Notice of Certain Events .....	47
Continuing Compliance with Certain Covenants .....	24	Availability of Information from MSRB.....	47
Future Debt .....	24	Limitations and Amendments .....	48
TCEQ Temporary Exception to Permitting Requirements.....	24	Compliance with Prior Undertakings .....	48
Governmental Approval .....	24	<b>FINANCIAL ADVISOR.....</b>	<b>48</b>
Forward-Looking Statements.....	24	<b>OFFICIAL STATEMENT.....</b>	<b>48</b>
Tax Exempt Property – Strategic Housing Finance Corporation		Preparation .....	48
of Travis County.....	24	Consultants.....	48
Future and Proposed Legislation.....	25	Updating the Official Statement During Underwriting Period .....	49
Environmental Regulation .....	25	Certification as to Official Statement.....	49
Drought Conditions .....	26	Official Statement "Deemed Final" .....	49
<b>LOCATION MAP.....</b>	<b>27</b>	Annual Audits .....	49
<b>THE DISTRICT.....</b>	<b>28</b>	PHOTOGRAPHS	
General .....	28	APPENDIX A	
City of Austin Consent Agreement .....	28	APPENDIX B	
Strategic Partnership Negotiations.....	28	APPENDIX C	
Litigation against the City of Austin.....	28		
Management of the District .....	29		

## 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 FTN Financial Capital Markets (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 100.09% 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 AND INSURANCE

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

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

### BOND INSURANCE

#### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

#### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 1 World Financial Center, 27th Floor, 200 Liberty Street, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

#### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.8 million, \$17.9 million and \$459.9 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

*Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditinsights/](http://buildamerica.com/creditinsights/).

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

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

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

*[The remainder of this page intentionally left blank]*

## 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 ..... North Austin Municipal Utility District No. 1 (the "District") is a political subdivision of the State of Texas created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on November 15, 1983 and confirmed at an election held within the District on April 7, 1984, which operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 997.7 acres within its boundaries, all of which lies within Williamson and Travis Counties, Texas. See "THE DISTRICT - Location."
- Location ..... The District is located primarily in Williamson County with a small portion in Travis County, approximately 15 miles north of Austin's central business district and three miles east/southeast of the U.S. Highway 183 and FM 620 intersection. A small portion of the District (approximately 11.61 acres of public right-of-ways) lies within the boundaries of the City of Austin, Texas and the remainder lies wholly within the extraterritorial jurisdiction of the City of Austin and within the boundaries of the Round Rock Independent School District (the "Round Rock ISD"). It is bounded by McNeil Road on the South; Parmer Lane on the East; FM 620 on the North; and generally the subdivisions of Los Indios and Springwoods on the West. See "THE DISTRICT – Location."
- Status of Development ..... The District contains approximately 997.33 acres of land, of which approximately 820 acres are developable. As of September 1, 2014, approximately 754 acres (or 91.95% of the approximately 820 developable acres within the District) have been developed with utility facilities. Residential subdivision development includes a total of 2,580 platted single family lots and 2,578 completed single family homes. Additional development within the District includes three apartment complexes (total of 850 units), a 71-acre tract which is the site of the State Farm regional office complex, a pre-school day care center, a beauty salon and Pond Springs Elementary School. Approximately 28 acres of the undeveloped area is currently under construction for multifamily/townhome development which is scheduled for completion near year end 2015. The District also contains approximately 18.88 acres of park land, which includes two major parks, a swimming pool, resident center, tennis courts, soccer fields, jogging trails and playscapes. Approximately 12.81 acres of parkland is also situated in the 100-year floodplain. See "THE DISTRICT –Status of Development."

### THE BONDS

- Description ..... The Bonds in the aggregate principal amount of \$6,200,000 mature serially in varying amounts on August 1 of each year from 2015 through 2028 and as a Term Bond which matures August 1, 2032, as set forth on the inside cover page hereof. Interest accrues from November 1, 2014 at the rates per annum set forth on the inside cover page hereof and is payable February 1, 2015 and each August 1 and February 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 August 1, 2021, in whole or from time to time in part, on August 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 designated as a Term Bond maturing August 1, 2032 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 Austin, 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 District has never defaulted on the timely payment of the principal of or interest on its Outstanding Bonds. The District has utilized bond proceeds to capitalize interest from up to two years in connection with certain of its new money Outstanding Bonds. See, "THE BONDS – Payment Record" and "FINANCIAL STATEMENT – Outstanding Bonds." The District has previously issued five series of unlimited tax and revenue new money bonds to acquire or construct utility facilities in the original aggregate principal amount of \$18,275,000. Additionally, the District has previously issued two series of refunding bonds in the original aggregate principal amount of \$10,339,712.

After the issuance of the Bonds, the District will have outstanding debt in the aggregate principal amount of \$7,615,000. See "FINANCIAL STATEMENT – Outstanding Bonds."

In addition, the District issued "\$16,300,000 City of Austin, Texas Contract Revenue bonds, Series 1985 (the "Contract Bonds") pursuant to a utility construction contract between the City of Austin and the District (the "Contract") and three issues of City of Austin, Texas Contract Revenue Refunding Bonds, none of which remain outstanding.

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 April 7, 1984 approving the issuance of bonds, the approving Order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the "Bond Order"). 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) fire hydrant repair and replacement; (ii) booster pump station building and appurtenances; and (iii) Rattan Creek drainage study and modifications.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-one months' interest requirements on the Bonds; (ii) pay certain engineering costs; and (iii) 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 April 7, 1984, voters within the District authorized a total of \$73,100,000 in unlimited tax and revenue new money bonds. After the issuance of the Bonds, \$48,625,000 in unlimited tax and revenue new money bonds will remain authorized but unissued. In addition, the District has voted authority to issue refunding bonds pursuant to the election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued and a special tax up to \$1.10 per \$100 valuation to make payments to the City of Austin under its Utility Construction Contract associated with the District's contract revenue bonds. See "FINANCIAL STATEMENT – Unlimited Tax and Revenue Bonds Authorized but Unissued" "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") has assigned a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A1" to the Bonds.

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  
and 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 ..... Murfee Engineering Company, Inc., Austin, Texas  
Manager ..... Crossroads Utility Services, Round Rock, Texas  
Bookkeeper ..... Bott & Douthitt, PLLC, Austin, Texas

**INVESTMENT CONSIDERATIONS**

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

*(The remainder of this page intentionally left blank)*

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

2013 Certified Assessed Valuation		\$774,728,897 <sup>(a)</sup>
2014 Certified Assessed Valuation		\$873,258,418 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		\$ 7,615,000 <sup>(c)</sup>
Ratio of Gross Debt to 2013 Certified Assessed Valuation		0.98%
Ratio of Gross Debt to 2014 Certified Assessed Valuation		0.87%
2014 Tax Rate		
	Debt Service	\$ 0.0661
	Maintenance	<u>0.2738</u>
	<b>Total 2014 Tax Rate</b>	<u>\$ 0.3399</u> <sup>(d)</sup>
Debt Service Fund Balance (as of September 17, 2014)		\$ 176,282 <sup>(e)</sup>
Percentage of current tax collections (Tax Years 1997-2013)		99.88% <sup>(f)</sup>
Percentage of total tax collections (Tax Years 1997-2013)		100.42% <sup>(f)</sup>
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2032, inclusive)		\$ 545,962
Tax Rate required to pay Average Requirement based upon 2013 Certified Assessed Valuation at 95% collections		\$ 0.08 /\$100 AV
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.07 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2015)		\$ 820,239
Tax Rate required to pay Maximum Requirement based upon 2013 Certified Assessed Valuation at 95% collections		\$ 0.12 /\$100 AV
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.10 /\$100 AV
Number of active connections as of September 1, 2014		
Single Family - Occupied	2,570	
Single Family - Unoccupied	9	
Multi-Family (765 units occupied out of 850 total units)	3	
Commercial	26	
Other (District & Irrigation)	<u>19</u>	
	<b>Total Number of Active Connections</b>	<b>2,627</b>
Estimated Population as of September 1, 2014		10,908 <sup>(g)</sup>

- (a) Assessed valuation of the District as of January 1, 2013 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Assessed valuation of the District as of January 1, 2014, as certified by WCAD and TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.3399 at its meeting in September 2014.
- (e) Unaudited as of September 17, 2014. Does not contain approximately twenty-one months' capitalized interest included in the Bond proceeds to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit. According to the leasing staffs at the apartments, 765 apartment units of the total 850 apartment units are occupied as of September 1, 2014.

**OFFICIAL STATEMENT  
relating to**

**\$6,200,000**

**North Austin Municipal Utility District No. 1**

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

**UNLIMITED TAX AND REVENUE BONDS, SERIES 2014**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the North Austin Municipal Utility District No. 1 (the "District"), a political subdivision of the State of Texas (the "State"), of its \$6,200,000 Unlimited Tax and Revenue Bonds, Series 2014 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended, a bond election held within the District on April 7, 1984 approving the issuance of the Bonds, and the approving order of the Texas Commission on Environmental Quality (the "Commission" or the "TCEQ").

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

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o of Armbrust & Brown, PLLC, 100 Congress, 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.

**THE BONDS**

**General Description**

The Bonds will bear interest from November 1, 2014 and will mature on August 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 February 1, 2014 and each August 1 and February 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 August 1, 2021, in whole or from time to time in part, on August 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 designated as a Term Bond maturing on August 1, 2032 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>\$2,125,000 Term Bond Maturing August 1, 2032*</b>	
Mandatory	
Redemption <u>Date</u>	Principal <u>Amount</u>
2029	\$ 500,000
2030	525,000
2031	550,000
2032	550,000

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

**DTC Redemption Provision**

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

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

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

**Payment** . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the “Designated Payment/Transfer Office”). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of

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

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

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

### **Replacement Bonds**

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

### **Authority for Issuance**

At an election held within the District on April 7, 1984, voters within the District authorized a total of \$73,100,000 in principal amount of unlimited tax and revenue bonds for water, wastewater, and drainage facilities. The Bonds constitute the sixth series of new money bonds issued by the District. After the issuance of the Bonds, the District will have remaining \$48,625,000 in authorized but unissued unlimited tax and revenue new money bonds. In addition, District voters authorized refunding bonds pursuant to the election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued and a special tax up to \$1.10 per \$100 valuation to make payments to the City of Austin under its Utility Construction Contract associated with the District's contract revenue bonds. See "The Bonds – Issuance of Additional Debt."

The Bonds are issued pursuant to the terms and provisions of the Bond Order; 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 are payable as to principal and interest from the proceeds of an 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 further payable from and are secured by a pledge of certain Net Revenues (defined below), if any, of the System (defined below) and subject to the conditions described below.

**Tax Pledge...** The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax, against 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 paying 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 as its "Interest and Sinking Fund" (also referred to as the "Debt Service Fund") for the Bonds. The Bond Order provides for the termination of the pledge of taxes and Net Revenues when and if the City of Austin dissolves the District and assumes all debts and liabilities of the District.

**Net Revenues Pledge...** The Bonds are further secured by a first lien on and pledge of certain Net Revenues, if any, of the District's water, wastewater and drainage system which does not include any facilities constructed with proceeds of any Special Project Bonds issued by the District (collectively, the "System"). "Net Revenues" are defined by the Bond Order as income or increment which may grow out of

ownership and operation of the System after deduction of reasonable costs of administration, efficient operation and adequate maintenance of the System, provided however, the term “Net Revenues” shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District pursuant to a contract authorized by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project. Any Net Revenues remaining after payment of debt service on the Bonds is available to the District for any lawful purpose. The Net Revenues are entirely dependent upon sales of water and sewer services to residents and users in the District. **It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District’s debt service requirements.**

*Dissolution...* Under Texas law, the District may be annexed and dissolved by the City of Austin (the “City”) without the consent of the District or its residents. When and if the District is abolished, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes and Net Revenues, if any, will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur. See “THE DISTRICT – City of Austin Consent Agreement.”

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

### **Payment Record**

The District has never defaulted on the timely payment of the principal of or interest on its Outstanding Bonds. The District has utilized bond proceeds to capitalize interest from up to two years in connection with the new money Outstanding Bonds. See “FINANCIAL STATEMENT – Outstanding Bonds.”

### **Flow of Funds**

The Bond Order creates or affirms creation, establishment and maintenance by the District of an Operating Fund, an Interest and Sinking Fund for the Bonds and a Construction Fund.

The Operating Fund provides for operation and maintenance of the System and payment of general and administrative expenses of the District. The District agrees in the Bond Order to deposit in the Operating Fund gross revenues from the ownership and operation of the System except for certain contractually derived revenues described therein. The Operating Fund may be used solely (i) to pay reasonable administration, efficient operation, and adequate maintenance expenses of the System, (ii) at the Board’s discretion, to transfer from time to time any excess to the credit of the Interest and Sinking Fund of the District when needed to pay the obligations of the District payable therefrom, and (iii) to the extent the balance of the Interest and Sinking Fund of the District and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from such Interest and Sinking Fund, to pay any other expenses of the District which may be lawfully paid from the Operating Fund.

The Bond Order confirms establishment and maintenance by the District of the Interest and Sinking Fund to be used to pay the principal of and interest on and Paying Agent fees in respect of the Bonds. The Bond Order requires that the District deposit to the credit of the Interest and Sinking Fund to pay (i) accrued interest on the Bonds from their date to the date of their delivery, (ii) collections of District taxes or Net Revenues, if any, to the extent provided in the Bond Order, (iii) capitalized interest on the Bonds, and (iv) amounts transferred from the Operating Fund to the extent provided in the Bond Order. The Bond Order requires that the Interest and Sinking Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

The Construction Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Construction Fund the balance of the proceeds of the Bonds remaining after the deposits to the Interest and Sinking Fund. The Construction Fund may be applied solely to pay (i) the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued as approved by the Commission with any surplus proceeds subject to the Commission’s further approval and (ii) the costs of issuing the Bonds. Interest earnings derived from the investment of proceeds from the sale of the Bonds deposited in the Construction Fund will be used for the purpose for which the Bonds are issued; provided that after completion of the purposes set forth in the Bond Order, any interest earnings remaining will be deposited in the Interest and Sinking Fund or used to pay any rebate in accordance with the Bond Order.

### **Defeasance of Outstanding Bonds**

**General** . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a “Defeased Bond”), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased

Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

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

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

For purposes of these provisions, "Defeasance Securities" means (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 Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

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

## **Record Date**

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

## **Issuance of Additional Debt**

### *General*

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of \$73,100,000 of unlimited tax and revenue bonds for the purpose of providing water, wastewater and storm drainage facilities and to reimburse developers for certain construction costs in connection with such facilities. Following the issuance of the Bonds, the District will have \$48,625,000 of unlimited tax and revenue new money bonds authorized but unissued.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds for such purpose. Before the District could issue ad valorem tax bonds for fire-fighting activities, the following actions would be required: (i) approval of the fire plan and issuance of bonds by the TCEQ; (ii) authorization of a detailed fire plan and bonds for such purposes by the qualified voters in the District; (iii) amendments to the existing City of Austin ordinance specifying the purposes for which the District may issue bonds; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election for approval of a fire plan or related bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds. Current fire protection and emergency services are provided by the Travis County Emergency Services District No. 4. The District does not have any current intention to engage in fire-fighting activities.

Effective August 13, 2003, Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code were amended to authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future; however, the issuance of bonds for parks and recreational facilities would require City of Austin approval due to limitations contained in the Consent Agreement. See "THE DISTRICT – City of Austin Consent Agreement."

### *Contract Revenue Bonds*

The District has previously issued "\$16,300,000 City of Austin, Texas Contract Revenue Bonds, Series 1985", and three issues of City of Austin, Texas Contract Revenue Refunding Bonds (collectively referred to herein as the "Contract Bonds"), none of which remain outstanding. Under the terms of the Utility Construction Contract, the District issued the Contract Bonds to finance the acquisition and construction of additions, extensions and improvements to the waterworks and sanitary sewer system of the City. The City owns and operates the facilities but has agreed to reserve adequate capacity to serve the District. The District's payments to the City were payable from ad valorem taxes, not exceeding \$1.10 per \$100 assessed valuation, levied upon all taxable property within the District and additionally secured by a subordinate lien on the Net Revenues of the District's System.

## **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. See "MUNICIPAL BOND RATINGS AND INSURANCE."

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

## **Specific Tax Covenants**

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

## **Additional Covenants**

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

## **Remedies in Event of Default**

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

## **Consolidation**

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

## **Annexation**

A small portion of the District (approximately 11.61 acres) lies within the boundaries of the City of Austin (the "City" or "Austin") and the remainder of the District lies entirely within the extraterritorial jurisdiction of the City. Under Texas law, the District may be annexed by the City without the District's consent. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control over or knowledge of the annexation plans of the City of Austin. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "THE DISTRICT – City of Austin Consent Agreement."

## **Alteration of Boundaries**

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

## **Approval of the Bonds**

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

## **Amendments to the Bond Order**

The District may, without the consent of or notice to any registered owners, amend the Bond Order in any manner to cure any ambiguity or to cure, correct, or supplement any defective or inconsistent provision contained therein, or to make any other change that does not in any respect materially and adversely affect the interest of the Registered Owners. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change debt service requirements, interest payment dates or the maturity or maturities of the outstanding Bonds; (2) reduce the rate of interest borne by any of the outstanding Bonds; (3) reduce the amount of the principal of, redemption premium, if any, or interest on the outstanding Bonds or impose any conditions with respect to such payments; (4) modify the terms of payment of principal of, redemption premium, if any, or interest on the outstanding Bonds, or impose any conditions with respect to such payments; (5) affect the right of the Registered Owners of less than all of the Bonds then outstanding; or (6) decrease the minimum percentage of the principal amount of Bonds necessary for consent to any such amendment. 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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.

*(The remainder of this page intentionally left blank)*

**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) fire hydrant repair and replacement; (ii) booster pump station building and appurtenances; and (iii) Rattan Creek drainage study and modifications.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-one months’ interest requirements on the Bonds; (ii) pay certain engineering costs; and (iii) 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, \$5,091,625 is required for construction costs, and \$1,108,375 is required for non-construction costs, including \$308,351 of capitalized interest.

**Construction Costs**

**A. Developer Contribution Items**

None

<b>Total Developer Contribution Items</b>	\$ -
---	------

**B. District Items**

1. Fire Hydrant Repair/Replacement	\$ 625,000
2. Booster Pump Station Buildings and Appurtenances	400,000
3. Rattan Creek Drainage Study and Modifications	3,000,000
4. Contingencies (10% of items 1-3)	402,500
5. Engineering (15% of items 1-4)	<u>664,125</u>
Total District Items	<u>\$ 5,091,625</u>

<b>Total Construction Costs</b>	<b>\$ 5,091,625</b>
---------------------------------	---------------------

**Non-Construction Costs**

A. Legal fees (2%)	\$ 124,000
B. Fiscal Agent Fees (2%)	124,000
C. Capitalized Interest (21 months @ 2.841947%)	308,351
D. Bond Discount (0.79%)	49,124
E. Bond Issuance Expenses	30,218
F. Bond Application Report Costs	50,000
G. Attorney General Fee (0.10%)	6,200
H. TCEQ Bond Issuance Fee (0.25%)	15,500
I. Contingency <sup>(a)</sup>	<u>400,982</u>

<b>Total Non-Construction Costs</b>	<b>\$ 1,108,375</b>
-------------------------------------	---------------------

<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b><u>\$ 6,200,000</u></b>
-------------------------------------	----------------------------

(a) 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.

*(The remainder of this page intentionally left blank)*

## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the District and are not obligations of the State of Texas; Travis County, Texas; the City of Austin, 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, and by a pledge of and lien on certain Net Revenues, if any, of the System. It is not expected any Net Revenues will be available to contribute to the payment of the Bonds. See "THE BONDS - Source of and Security for Payment." The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property or, in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will accumulate or maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See "Registered Owners' Remedies" below.

### Factors Affecting Taxable Values and Tax Payments

*Economic Factors, Interest Rates, Credit Availability and Residential Foreclosures:* A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes are related to general economic conditions affecting the demand for and taxable value of residences. Demand for 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.

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.

*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.

*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.

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 effect the future financial condition of either, 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 \$873,258,418 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$820,239 (2015) and the Average Annual Debt Service Requirement will be

\$545,962 (2015 through 2032, 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 \$0.10/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$820,239, and a tax rate of \$0.07/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$545,962. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

### **No Requirement to Build on Developed Lots**

Currently, there is no requirement that builders owning developed lots within the District commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

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

### **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.

### **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.

A district may not be forced into bankruptcy involuntarily.

### **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 Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

### **Future Debt**

The District has reserved the right in the Bond Order to issue the remaining \$48,625,000 authorized but unissued unlimited tax and revenue bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$48,625,000 unlimited tax and revenue bonds which have 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, the TCEQ and the City.

The District does not currently anticipate the issuance of the full principal amount of authorized but unissued bonds (\$48,625,000), but the District retains the legal right to issue the full amount of authorized but unissued bonds subject to the approval of the TCEQ. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of additional bonds is subject to approval by 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. See "THE BONDS -Issuance of Additional Debt" and "FINANCIAL STATEMENT - Unlimited Tax and Revenue Bonds Authorized But Unissued."

### **TCEQ Temporary Exception to Permitting Requirements**

The District is currently operating under a temporary exception to permitting requirements from the TCEQ for the use of its booster pumps to maintain adequate water pressure within the District. Such temporary permit was initially issued in 2009 for a period of three years which was renewed in 2012 for an additional three years. While the District currently intends to request an additional extension of the temporary permit, no assurances can be given regarding future action and approvals by the TCEQ. If such temporary permit is not extended, the District's Engineer believes that the District may be required to install storage tanks, elevated tanks and additional pumps at a significant cost to the District and its taxpayers

### **Governmental Approval**

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased 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 December 9, 2011. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

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

### **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 portion of the District located in Travis County 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.

### **Environmental Regulation**

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

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

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

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

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

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

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

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

October 11, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

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

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies.

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

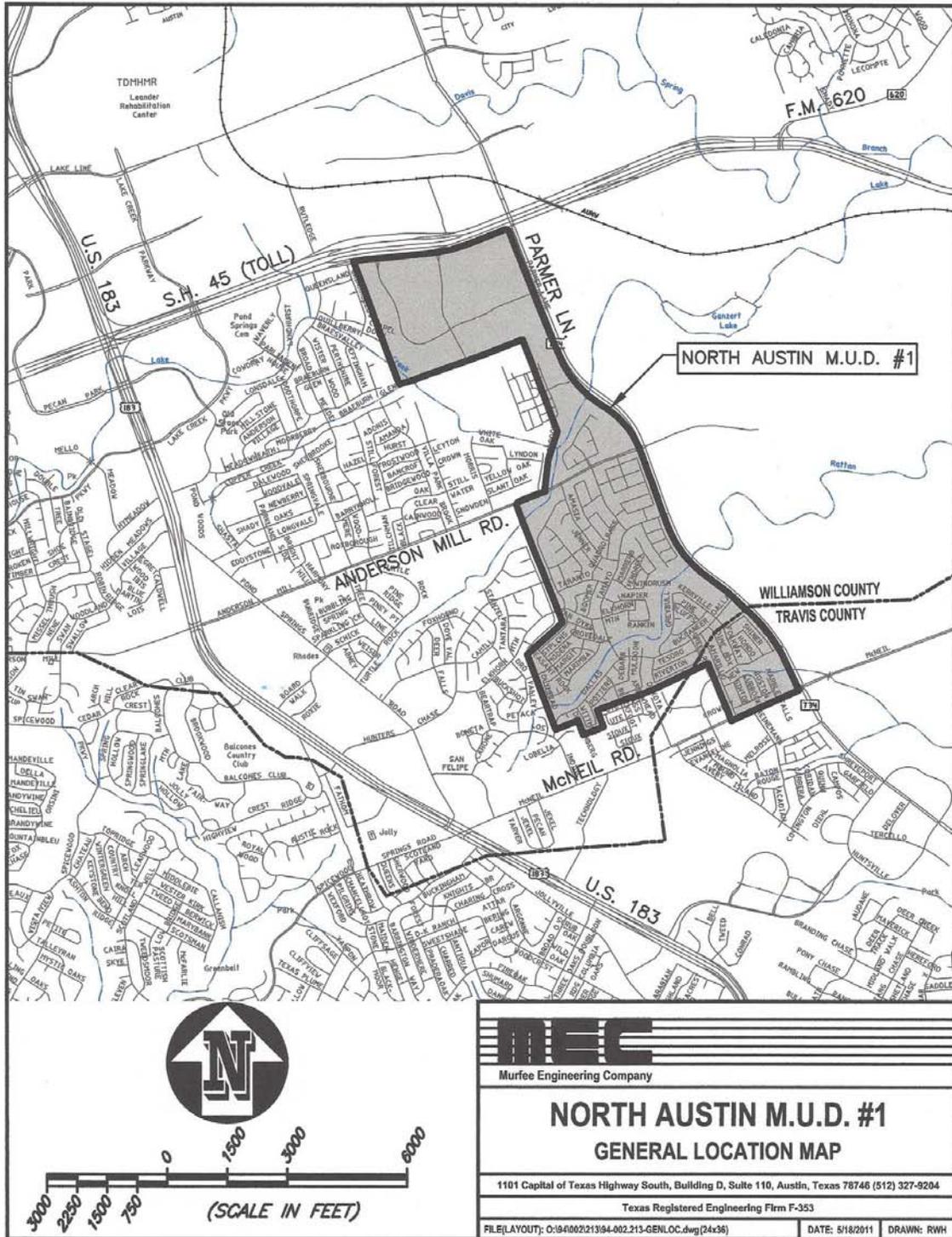
**Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations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

#### **Drought Conditions**

Central Texas, like other areas of the State, is experiencing drought conditions. The District adopted a water conservation plan and currently has implemented water restrictions for residents of the District. The City 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.

*(The remainder of this page intentionally left blank)*

LOCATION MAP



## THE DISTRICT

### General

The District was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on November 15, 1983 and a confirmation election held within the District on April 7, 1984, and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ. A small portion of the District (approximately 11.61 acres) lies within the boundaries of the City of Austin, Texas and the remainder lies wholly within the extraterritorial jurisdiction of the City of Austin. See "THE BONDS - Source of and Security for Payment – Dissolution."

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. If approved by the voters and the TCEQ, the District may establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Effective August 13, 2003, Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code were amended to authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future; however, the issuance of bonds for parks and recreational facilities would require City of Austin approval due to limitations contained in the Consent Agreement, as described below. See "THE BONDS – Issuance of Additional Debt".

The TCEQ exercises continuing supervisory jurisdiction over the District. Under the Consent Agreement, which was required in order to obtain the City of Austin's consent to creation of the District, the District was required to agree to observe certain requirements of the City of Austin which, among other requirements, limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities; require approval by the City of Austin of District construction plans; and permit connections only to single family lots and commercial or multi-family commercial platted reserves which have been approved by the Planning Commission of the City of Austin. Construction and operation of the District's System is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM."

### City of Austin Consent Agreement

Under Texas law, the City of Austin (the "City") was required to give its consent to the creation of the District. The vehicle for this consent is an ordinance passed by the City, a part of which includes the agreement concerning creation and operation of North Austin Municipal Utility District No. 1 (the "Consent Agreement"). By passage of an ordinance, the City unconditionally granted its consent to the creation of the District for the purpose of issuing bonds approved by the City. The following is a summary of certain terms and provisions of the Consent Agreement. It is not a complete description of such agreement and is qualified by reference to the Consent Agreement, copies of which may be obtained from the Financial Advisor.

Under the Consent Agreement, the City agrees to provide water and wastewater service to all of the users within the District. The District itself is a customer of the City, and the City and the District have agreed that water supplied to the District pursuant to the Consent Agreement will be at the rate or rates established by the City for water supplied to water districts generally. The Consent Agreement also provides that the City will not be liable for the failure to provide water and wastewater service resulting from conditions beyond the City's control. In addition, the City has the right to limit service to the District on the same basis and to the same extent that it limits service to other customers. The Consent Agreement provides that the District will not serve customers outside its boundaries without prior City permission. The Consent Agreement provides that the applicable developer within the District will serve as project manager for the construction of the facilities constituting the District's water, wastewater and drainage system. Such facilities are required to be reviewed and approved by the appropriate agencies of the State of Texas and by the City prior to construction.

The District and the City have agreed to certain land use controls including use density limitations for property located within the boundaries of the District. Prior to development, the land in the District must be subdivided in accordance with Texas law. The Consent Agreement also contains certain provisions which limit the right of the City to annex the land within the District and of the District to annex additional land without the prior approval of the City. The Consent Agreement has a maximum term of 40 years.

### Strategic Partnership Negotiations

Section 43.0751 of the Texas Local Government Code permits cities and districts to negotiate and enter into written agreements providing terms and conditions under which the land within a district will be annexed, services will be provided and funded, and the district will continue either in its then-existing form or as a limited district that provides only specified functions. At this time, Austin has not initiated any discussions and no negotiations on the terms of any possible strategic partnership agreement or on the creation of a limited district have occurred.

### Litigation against the City of Austin

The District, in 2013 along with three other water districts, filed petitions with the TCEQ appealing the rates set by the City of Austin for wholesale water and wastewater services. The City of Austin provides wholesale water and wastewater services to each of these water districts. The petitions filed by the water districts allege that the City of Austin is charging in excess of the cost of services being provided, and

as such, is charging rates in violation of Texas law. Since the filing of the petitions, the Texas Legislature in 2013 has transferred jurisdiction of water and wastewater rate appeals to the Public Utility Commission (the "PUC.") The PUC now has jurisdiction and is processing this appeal through the State Office of Administrative Hearings (the "SOAH"). Discovery is on-going and a trial on the merits is not anticipated until next year. The SOAH Judge has established interim water rates to be charged by the City of Austin to the water districts, lowering rates to what existed prior to the City's adoption of new rates in 2012. At this time no action has been taken by the Judge regarding interim wastewater rates.

**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 in November in each even-numbered year. All of the directors own property in the District.

<b>Name</b>	<b>Position</b>	<b>Length of Service</b>	<b>Term Expires November</b>
Alan McNeil	President	19 years	2014
Donald G. Conklin	Vice President	16 years	2014
Keith Collins	Treasurer	15 years	2016
Jo Jones	Secretary	10 years	2016
Kim Green	Assistant Secretary/Treasurer	1- ½ years	2016

*Consultants*

**Tax Assessor/Collector**

The portion of land and improvements in the District that are located in Williamson County are being appraised by the Williamson Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District to collect taxes for the District. The Williamson County Tax Assessor/Collector, Ms. Deborah Hunt, currently serves the District in this capacity under contract.

The portion of land and improvements in the District that are located in Travis County are being appraised by the Travis Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District to collect taxes for the District. The Travis County Tax Assessor/Collector, Mr. Bruce Elfant, currently serves the District in this capacity under contract.

**General Manager**

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

**Engineer**

The District's consulting engineer is Murfee Engineering Company, Inc. Such firm serves as consulting engineer to 20 other special districts.

**Bookkeeper**

Bott & Douthitt, PLLC, certified public accountants, serves as bookkeeper to the District. Such firm serves as bookkeeper to 53 other special districts.

**Financial Advisor**

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

**Bond Counsel and Disclosure Counsel**

The District has engaged McCall, Parkhurst & Horton L.L.P., Austin, Texas, as Bond Counsel and Disclosure Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel and Disclosure Counsel are contingent upon the sale 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 is located primarily in Williamson County with a small portion in Travis County, approximately 15 miles north of Austin's central business district and three miles east/southeast of the U.S. Highway 183 and FM 620 intersection. A small portion of the District (approximately 11.61 acres of public right-of-ways) lies within the boundaries of the City of Austin, Texas and the remainder lies wholly within the extraterritorial jurisdiction of the City of Austin and within the boundaries of the Round Rock Independent School District (the "Round Rock ISD"). It is bounded by McNeil Road on the South; Parmer Lane on the East; FM 620 on the North; and generally the subdivisions of Los Indios and Springwoods on the West.

**Historical and Current Status of Development**

Development within the District began in the early 1980s with the development of the initial sections of the Milwood subdivision by Milwood Joint Venture II, a joint venture between Milburn Investments, Inc. and Palmar Associates, Ltd. From 1983 to 2000 development and construction of single family homes within the District continued intermittently. Virtually all homes constructed in the District were built by Milburn Homes or a successor in interest thereto.

*Single-family Development . . . .* The District contains approximately 997.33 acres of land, of which approximately 820 acres are developable. As of September 1, 2014, approximately 754 acres (or 91.95% of the approximately 820 developable acres within the District) have been developed with utility facilities as Milwood residential subdivision containing a total of 2,580 platted single family lots and 2,578 completed single family homes (of which 2,570 are occupied and 8 are unoccupied).

*Multi-family Development . . . .* The District contains three apartment complexes totaling 850 apartment units. According to the leasing staffs at the apartments, the apartments were 90% occupied as of September 1, 2014.

*Commercial/Retail Development . . . .* The District contains a 71-acre tract which is the site of the State Farm regional office complex, as well as a pre-school day care center, a beauty salon and Pond Springs Elementary School.

*Amenity Development . . . .* The District contains approximately 18.88 acres of park land, which includes two major parks, a swimming pool, resident center, tennis courts, soccer fields, jogging trails and playscapes.

The chart on the following page reflects the status of development as of September 1, 2014.

*(Chart appears on following page)*

**A. Platted Lots Developed with Utility Facilities**

<u>Milwood Section</u>	<u>Acreage</u>	<u>Developed Lots</u>	<u>Completed Homes</u>	<u>Vacant Lots</u>
22	43.41	191	191	0
23	40.03	166	166	0
26A	50.89	132	132	0
27A	29.90	137	137	0
27B	25.98	124	124	0
28	30.42	213	213	0
29	21.91	145	145	0
30	27.19	123	123	0
31A	21.00	120	120	0
31A Phase B	15.29	85	85	0
32	18.46	153	152	1
33	6.12	33	32	1
34	20.28	109	109	0
35	16.11	84	84	0
36	24.52	135	135	0
37A	17.73	75	75	0
37A Phase A	5.94	36	36	0
37A Phase B	8.57	52	52	0
38A	20.83	47	47	0
38B Phase 1	11.65	48	48	0
38B Phase 2	14.52	52	52	0
40	28.79	150	150	0
42	<u>30.20</u>	<u>170</u>	<u>170</u>	<u>0</u>
<b>Subtotal</b>	<b>529.74</b>	<b>2,580</b>	<b>2,578</b>	<b>2</b>

**B. Multi-Family/Commercial/Other Acreage**

Multi-Family	42.16
Retail/Commercial	22.21
Office	138.19
Pre-School Day Care	1.01
School	4.70
Detention Pond	<u>16.19</u>
<b>Subtotal</b>	<b>224.46</b>

**C. Remaining Developable Acreage**

Remaining Developable Acreage	<u>65.98</u>
<b>Subtotal</b>	<b>65.98</b>

**D. Undevelopable Acreage**

Streets	93.96
Floodplain, Parks and Open Space	81.09
Fire Station	<u>2.00</u>
<b>Subtotal</b>	<b>177.05</b>
<b>TOTAL</b>	<b><u>997.23</u></b>

## THE SYSTEM

### Regulation

The District receives its water supply and wastewater treatment from the City of Austin ("the City" or "Austin") pursuant to the terms of the Consent Agreement (See "THE DISTRICT – City of Austin Consent Agreement").

### Water Supply and Distribution

The District receives its water supply from the City of Austin water system, which obtains surface water from the Colorado River. Pursuant to the Consent Agreement, the City agrees to sell and deliver all water necessary for domestic and commercial purposes by users within the District on a retail basis on the same terms and conditions as it would all other customers within the City. The sale and furnishing of water to the customers within the District shall be nondiscriminatory and uniform with the policies and ordinances relating to the City's utility service area. The supply of water to the customers within the District may be reasonably limited by the City on the same basis and to the same extent as to any other customer within the City's service area.

The District is currently operating under a temporary exception to permitting requirements from the TCEQ for the use of its booster pumps to maintain adequate water pressure within the District. Such temporary permit was initially issued in 2009 for a period of three years which was renewed in 2012 for an additional three years. While the District currently intends to request an additional extension of the temporary permit, no assurances can be given regarding future action and approvals by the TCEQ. If such temporary permit is not extended, the District's Engineer believes that the District may be required to install storage tanks, elevated tanks and additional pumps at a significant cost to the District and its taxpayers.

### Wastewater Collection and Treatment

Permanent wastewater treatment service for the District is provided by the City of Austin's Walnut Creek Wastewater Treatment Plant, which has a capacity of 60 million gallons per day average flow. The City has agreed to provide wastewater treatment service at the Walnut Creek Wastewater Treatment Plant for the ultimate development in the District.

### Storm Drainage

The storm drainage system that serves the District consists of curb and guttered streets and storm sewers. The collected storm water runoff is routed through detention and water quality ponds, thence into tributaries of Brushy Creek and ultimately to the Brazos River for portions of the District within Williamson County. The Travis County portions of the District drain into tributaries of Wilbarger Creek and ultimately into the Colorado River.

### 100-Year Flood Plain

According to the District's Engineer, approximately 75 acres within the District are located within the 100-year flood plain, as shown on the following Federal Flood Insurance Administration Rate Maps: (i) No. 48491C0515E for Williamson County, Texas, dated September 26, 2008, (ii) No. 48491C0675E for Williamson County, Texas, dated September 26, 2008 and (iii) No. 48453C0280H for Travis County, Texas, dated September 26, 2008. Those 75 acres are included in the land use table as undevelopable.

### Water and Wastewater Operations

#### *Rate and Fee Schedule - Table 1*

The Board of Directors of the District establishes rates and fees for water and sewer service. The following schedule sets forth the rates and fees for the District's water and sewer service which were effective as of September 18, 2013.

#### Water & Wastewater Charges for Single Family Residential Customers (monthly billings)

Basic Service rate (which includes solid waste disposal, 1,000 gallons of water service and 1,000 gallons of wastewater service) .....	\$35.00 per residence
Monthly In-District Water Rate .....	\$4.65 per 1,000 gallons over first 1,000 gallons
Monthly In-District Wastewater Rate .....	\$6.40 per 1,000 gallons over first 1,000 gallons

#### Water & Wastewater Charges for Commercial Customers & Multi-Family Customers (monthly billings)

Water Usage Charge per Fee Unit (includes 1,000 gallons).....	\$16.00 per meter
Water Gallonage Charge .....	\$6.75 per 1,000 gallons over first 1,000 gallons
Wastewater Usage Charge per Fee Unit (includes 1,000 gallons).....	\$16.00 per meter
Water Gallonage Charge .....	\$8.50 per 1,000 gallons over first 1,000 gallons

## 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					
	8/31/2014 <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>						
Water/Wastewater Service, including penalties	\$ 3,012,102	\$ 3,578,042	\$ 3,364,032	\$ 3,712,882	\$ 2,641,585	\$ 2,972,842
Garbage Revenue	540,645	560,231	526,071	443,371	428,793	380,390
Tap and Inspection Fees	51,000	-	-	-	-	-
Property Taxes, including penalties	2,014,855	2,058,818	1,908,926	1,893,209	2,017,456	1,865,443
Investment earnings	15,818	17,730	19,686	19,543	25,591	27,848
Park and Pool Fees	87,378	-	-	-	-	59,645
Grant Proceeds	91,813	179,199	57,963	-	-	-
Miscellaneous	991	82,425	85,789	235,662	76,057	112,258
<b>TOTAL REVENUES</b>	<b>\$ 5,814,601</b>	<b>\$ 6,476,445</b>	<b>\$ 5,962,467</b>	<b>\$ 6,304,667</b>	<b>\$ 5,189,482</b>	<b>\$ 5,418,426</b>
<b>EXPENDITURES</b>						
Water/Wastewater Service	\$ 2,396,323	\$ 2,848,332	\$ 2,940,113	\$ 3,226,186	\$ 2,627,976	\$ 3,252,739
Garbage Service	490,595	513,396	489,222	450,972	405,378	350,938
Contracted Services	295,790	330,062	306,676	281,156	278,320	317,747
Professional Fees	257,988	239,623	232,695	217,710	128,890	144,776
Director Fees and related expenses	19,846	33,398	46,409	44,603	30,732	34,557
Utilities	47,895	51,902	41,740	46,319	45,206	45,821
Repairs and Maintenance	72,578	-	-	-	-	71,625
Park/Pool Expenses	599,575	710,344	757,008	651,043	606,779	569,844
Security	46,998	54,653	53,494	52,989	49,952	48,914
Other	67,002	70,696	58,895	79,657	136,481	108,675
Capital Outlay	-	341,927	89,360	382,385	531,664	293,750
<b>TOTAL EXPENDITURES</b>	<b>\$ 4,294,590</b>	<b>\$ 5,194,333</b>	<b>\$ 5,015,612</b>	<b>\$ 5,433,020</b>	<b>\$ 4,841,378</b>	<b>\$ 5,239,386</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 1,520,011</b>	<b>\$ 1,282,112</b>	<b>\$ 946,855</b>	<b>\$ 871,647</b>	<b>\$ 348,104</b>	<b>\$ 179,040</b>
<b>Fund Balance, beginning of year</b>	<b>\$ 5,305,238</b>	<b>\$ 4,023,124</b>	<b>\$ 3,090,184</b>	<b>\$ 2,218,537</b>	<b>\$ 1,991,587</b>	<b>\$ 1,167,570</b>
Plus/(Less) Fund Transfers		\$ 2	\$ (13,915)	\$ -	\$ (121,154)	\$ 644,977
<b>Fund Balance, end of year</b>	<b>\$ 6,825,249</b>	<b>\$ 5,305,238</b>	<b>\$ 4,023,124</b>	<b>\$ 3,090,184</b>	<b>\$ 2,218,537</b>	<b>\$ 1,991,587</b>

(a) Unaudited as of August 31, 2014. Represents 11 months of the District's fiscal year.

(b) Audited.

**DEBT SERVICE REQUIREMENTS - TABLE 3**

**North Austin Municipal Utility District No. 1  
\$4,075,000**

**Unlimited Tax and Revenue Bonds, Series 2014**

**Dated Date: November 1, 2014**

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

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Projected Total Debt Service Requirements	
	Principal Due (08/01)	Interest		Total	Principal (Due 08/01)	Interest		Principal and Interest		
		Due (02/01)	Due (08/01)			Due (02/01)	Due (08/01)			Total
2015	\$ 610,000	\$ 30,041	\$ 30,041	\$ 670,083	\$ 25,000	\$ 41,719	\$ 83,438	\$ 125,156	\$ 150,156	\$ 820,239
2016	250,000	18,425	18,425	286,850	25,000	83,188	83,188	166,375	191,375	478,225
2017	270,000	12,488	12,488	294,975	25,000	82,938	82,938	165,875	190,875	485,850
2018	285,000	6,413	6,413	297,825	25,000	82,688	82,688	165,375	190,375	488,200
2019	-	-	-	-	325,000	82,438	82,438	164,875	489,875	489,875
2020	-	-	-	-	350,000	79,188	79,188	158,375	508,375	508,375
2021	-	-	-	-	350,000	75,688	75,688	151,375	501,375	501,375
2022	-	-	-	-	375,000	72,188	72,188	144,375	519,375	519,375
2023	-	-	-	-	400,000	67,969	67,969	135,938	535,938	535,938
2024	-	-	-	-	400,000	63,469	63,469	126,938	526,938	526,938
2025	-	-	-	-	425,000	58,469	58,469	116,938	541,938	541,938
2026	-	-	-	-	425,000	53,156	53,156	106,313	531,313	531,313
2027	-	-	-	-	450,000	47,313	47,313	94,625	544,625	544,625
2028	-	-	-	-	475,000	41,125	41,125	82,250	557,250	557,250
2029	-	-	-	-	500,000	34,000	34,000	68,000	568,000	568,000
2030	-	-	-	-	525,000	26,000	26,000	52,000	577,000	577,000
2031	-	-	-	-	550,000	17,600	17,600	35,200	585,200	585,200
2032	-	-	-	-	550,000	8,800	8,800	17,600	567,600	567,600
	<b><u>\$ 1,415,000</u></b>	<b><u>\$ 67,366</u></b>	<b><u>\$ 67,366</u></b>	<b><u>\$ 1,549,733</u></b>	<b><u>\$ 6,200,000</u></b>	<b><u>\$ 1,017,931</u></b>	<b><u>\$ 1,059,650</u></b>	<b><u>\$ 2,077,581</u></b>	<b><u>\$ 8,277,581</u></b>	<b><u>\$ 9,827,314</u></b>

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

**Assessed Value - Table 4**

2013 Certified Assessed Valuation		\$774,728,897 <sup>(a)</sup>
2014 Certified Assessed Valuation		\$873,258,418 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		\$ 7,615,000 <sup>(c)</sup>
Ratio of Gross Debt to 2013 Certified Assessed Valuation		0.98%
Ratio of Gross Debt to 2014 Certified Assessed Valuation		0.87%
2014 Tax Rate		
	Debt Service	\$ 0.0661
	Maintenance	<u>0.2738</u>
	<b>Total 2014 Tax Rate</b>	<u><u>\$ 0.3399</u></u> <sup>(d)</sup>
Debt Service Fund Balance (as of September 17, 2014)		\$ 176,282 <sup>(e)</sup>
Estimated Population as of September 1, 2013 .....	10,908 <sup>(f)</sup>	
Area of District: 746.2 acres		

- (a) Assessed valuation of the District as of January 1, 2013 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."  
 (b) Assessed valuation of the District as of January 1, 2014 as certified by WCAD and TCAD. See "TAXING PROCEDURES."  
 (c) Includes the Bonds.  
 (d) The District levied a 2014 tax rate of \$0.3399 in September 2014.  
 (e) Unaudited as of September 17, 2014. Does not include approximately twenty-one months' capitalized interest included in the Bond proceeds. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.  
 (f) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit. . According to the leasing staffs at the apartments, 765 apartment units of the total 850 apartment units are occupied as of September 1, 2014.

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

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
4/7/1984	Water, Sanitary Sewer and Drainage	\$ 73,100,000	\$ 24,475,000 <sup>(a)</sup>	\$ 48,625,000
<b>Total</b>		<b>\$ 73,100,000</b>	<b>\$ 24,475,000</b>	<b>\$ 48,625,000</b>

(a) Includes the Bonds.

*(The remainder of this page intentionally left blank)*

**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>				
04/01/86	Water, Sanitary Sewer & Drainage	1986	\$ 5,225,000	\$ -
11/01/86	Water, Sanitary Sewer & Drainage	1986A	2,100,000	-
09/01/93	Water, Sanitary Sewer & Drainage	1993	3,350,000	-
06/01/95	Water, Sanitary Sewer & Drainage	1995	4,250,000	-
01/01/99	Water, Sanitary Sewer & Drainage	1999	3,350,000	1,040,000
11/01/14	Water, Sanitary Sewer & Drainage	2014	6,200,000	6,200,000 <sup>(a)</sup>
	<b>Subtotal</b>		<b>\$ 24,475,000</b>	<b>\$ 7,240,000</b>
<b>B. Refunding Bonds</b>				
11/01/93	Refunding	1993A	\$ 5,625,000	\$ -
06/15/03	Refunding	2003	4,714,712	375,000
	<b>Subtotal</b>		<b>\$ 10,339,712</b>	<b>\$ 375,000</b>
	<b>Total</b>		<b>\$ 34,814,712</b>	<b>\$ 7,615,000</b>

(a) The Bonds.

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

General Fund	\$ 6,944,735
Debt Service Fund	176,282 <sup>(b)</sup>

(a) Unaudited as of September 17, 2014. Includes cash and investments.

(b) Does not include approximately twenty-one months' capitalized interest included in the Bond proceeds. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

**Investment Authority and Investment Practices of the District**

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), 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 September 17, 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.

<b>Investment Value as of September 17, 2014</b>	
Cash	\$ 657,624
TexPool	2,826,936
Certificates of Deposit	3,636,456
<b>Total Investments</b>	<b>\$ 7,121,017</b>

**Estimated Overlapping Debt Statement**

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

<b>Taxing Body <sup>(a)</sup></b>	<b>Gross Debt</b>		<b>% of</b>	<b>Amount of</b>
	<b>Amount</b>	<b>As of</b>	<b>Overlapping Net Debt</b>	<b>Overlapping Net Debt</b>
Austin Community College District	\$ 84,441,598	9/1/2014	0.619%	\$ 523,054
Travis Central Healthcare District	15,070,000	9/1/2014	0.718%	108,275
Travis County	605,044,593	9/1/2014	0.719%	4,351,393
Williamson County	611,589,787	9/1/2014	2.320%	14,190,627
Round Rock Independent School District	640,538,473	9/1/2014	3.566%	22,844,130
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 42,017,478</b>
The District <sup>(b)</sup>	\$ 7,615,000	11/1/2014	100.00%	\$ 7,615,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 49,632,478</b>
<b>Ratio of Estimated and Overlapping Debt to 2013 Certified Assessed Valuation</b>				<b>6.41%</b>
<b>Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation</b>				<b>5.68%</b>

(a) A resident of the District can only reside in one county.  
 (b) Includes the Bonds.

**Overlapping Taxes for 2014**

Overlapping Entity	2014 Tax Rates		Average Tax Bill <sup>(a)</sup>	
	Travis County	Williamson County	Travis County	Williamson County
The District	\$0.339900	\$0.339900	\$ 712	\$ 712
Williamson County		0.489029	-	1,025
Travis County	0.480900		1,008	-
Round Rock Independent School District	1.337500	1.337500	2,803	2,803
Travis Central Healthcare District	0.126400		265	-
Austin Community College District	0.094200	0.094200	197	-
Travis County ESD No. 4	0.100000		210	-
Williamson Co. FM/RD District		0.040000	-	84
Upper Brushy Creek WC&ID No. 1A	-	0.020000	-	42
<b>TOTAL</b>	<b>\$2.478900</b>	<b>\$2.320629</b>	<b>\$5,195.25</b>	<b>\$4,666.13</b>

(a) Based upon 2014 average single-family home value of \$209,579.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Real Residential Single-Family	\$613,799,966	70.29%	\$544,689,672	70.24%	\$509,620,739	69.80%
Multi-Family Residential	111,410,608	12.76%	101,714,174	13.12%	79,796,361	10.93%
Vacant Platted Lots/Tracts	13,335,262	1.53%	13,060,147	1.68%	13,064,947	1.79%
Real Acreage	4,813,226	0.55%	4,346,374	0.56%	4,346,374	0.60%
Real Commercial	173,363,268	19.85%	138,329,048	17.84%	138,580,977	18.98%
Utilities	1,187,320	0.14%	1,508,157	0.19%	1,455,861	0.20%
Tangible Personal Business	15,558,146	1.78%	24,361,507	3.14%	21,706,843	2.97%
Real Inventory	1,416,222	0.16%	3,941,679	0.51%	3,028,044	0.41%
Exempt	559	0.00%	12,314	0.00%	8,396,118	1.15%
Adjustments & Exemptions	(61,626,159)	-7.06%	(56,538,758)	-7.29%	(49,893,968)	-6.83%
Total	<u>\$873,258,418</u>	<u>100.00%</u>	<u>\$775,424,314</u>	<u>100.00%</u>	<u>\$730,102,296</u>	<u>100.00%</u>

*(The remainder of this page intentionally left blank)*

**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 respective Tax Assessor/Collector of WCAD and TCAD. 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	%		
1997	\$ 318,753,910	0.7500	\$ 2,388,626	\$ 2,373,702	99.38%	\$ 2,416,072	101.15%	9/30/1998	(b)
1998	334,097,407	0.7100	2,372,092	2,360,018	99.49%	2,378,333	100.26%	9/30/1999	(b)
1999	358,070,419	0.6850	2,452,782	2,434,484	99.25%	2,457,849	100.21%	9/30/2000	(b)
2000	430,750,390	0.5803	2,499,645	2,491,675	99.68%	2,520,789	100.85%	9/30/2001	(b)
2001	519,245,240	0.5500	2,855,849	2,842,237	99.52%	2,849,839	99.79%	9/30/2002	(b)
2002	573,056,756	0.5100	2,922,589	2,904,905	99.39%	2,916,342	99.79%	9/30/2003	(b)
2003	563,113,471	0.5000	2,815,567	2,801,396	99.50%	2,804,297	99.60%	9/30/2004	(b)
2004	550,643,628	0.5000	2,753,218	2,737,770	99.44%	2,748,476	99.83%	9/30/2005	(b)
2005	618,683,000	0.4500	2,784,074	2,773,589	99.62%	2,800,238	100.58%	9/30/2006	(b)
2006	574,662,278	0.4500	2,585,980	2,566,652	99.25%	2,578,886	99.73%	9/30/2007	(b)
2007	687,512,648	0.4180	2,873,803	2,860,857	99.55%	2,871,847	99.93%	9/30/2008	(b)
2008	758,441,956	0.4050	3,071,690	3,057,536	99.54%	3,065,471	99.80%	9/30/2009	(b)
2009	751,978,703	0.3801	2,858,545	2,936,617	102.73%	2,940,728	102.87%	9/30/2010	(b)
2010	706,041,677	0.3819	2,696,373	2,759,972	102.36%	2,772,394	102.82%	9/30/2011	(b)
2011	726,237,845	0.3819	2,768,638	2,761,581	99.75%	2,770,679	100.07%	9/30/2012	(b)
2012	730,102,296	0.3719	2,712,587	2,705,900	99.75%	2,712,474	100.00%	9/30/2013	(b)
2013	774,728,897	0.3450	2,673,135	2,665,165	99.70%	2,669,258	99.85%	9/30/2014	(c)
2014	873,258,418	0.3399	2,968,205	<i>In process of collection</i>				9/30/2015	(d)

- (a) Assessed Valuation reflects the adjusted value at September 30<sup>th</sup> of each respective year as included in the audited financial statement.
- (b) Audited.
- (c) Unaudited. Reflects collections through August 31, 2014.
- (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	2009	2008	2007
<b>Debt Service</b>	\$ 0.0661	\$ 0.0850	\$ 0.0901	\$ 0.1194	\$ 0.1219	\$ 0.1200	\$ 0.1600	\$ 0.2480
<b>Maintenance</b>	<u>0.2738</u>	<u>0.2600</u>	<u>0.2818</u>	<u>0.2625</u>	<u>0.2600</u>	<u>0.2601</u>	<u>0.2450</u>	<u>0.1700</u>
<b>Total</b>	<b>\$ 0.3399</b>	<b>\$ 0.3450</b>	<b>\$ 0.3719</b>	<b>\$ 0.3819</b>	<b>\$ 0.3819</b>	<b>\$ 0.3801</b>	<b>\$ 0.4050</b>	<b>\$ 0.4180</b>

**Tax Rate Limitation**

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

**Maintenance Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, and any tax bonds which may be issued in the future. At an election held on April 7, 1984, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2014 maintenance and operations tax of \$0.2738/\$100 assessed valuation.

**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.

Name	Type of Property	2014	2013	2012
State Farm Mutual Auto Insurance Company	Commercial	63,346,292	41,825,091	41,291,841
HHC Amber Oaks V LLC	Apartments	36,010,081	33,613,858	36,551,504
Bell Fund IV Rattan Creek Apartments LLC <sup>(b)</sup>	Apartments	35,906,417	33,156,957	27,509,243
Fund Amber Oaks LLC	Apartments	32,000,000	29,357,217	27,358,755
HHC Amber Oaks III LLC & Buchanan AO III Spe LLC	Apartments	29,578,449	26,726,116	26,259,790
Fund Amber Oaks Phase 2 LLC	Apartments	23,875,814	20,720,593	(a)
REO Amber Oaks II LLC	Apartments	20,937,800	15,538,863	13,424,318
FPW/WC Lake Creek Associates LLC	Commercial	19,650,000	18,500,000	17,456,786
LTF Real Estate Company Inc.	Commercial	13,185,820	12,583,992	12,781,080
Austin Jack LLC	Commercial	(a)	9,234,049	9,234,049
SCI Parmer Fund 1 LLC	Commercial	10,942,172	(a)	8,603,983
<b>Total</b>		<u>\$ 285,432,845</u>	<u>\$ 241,256,736</u>	<u>\$ 220,471,349</u>
Percent of Assessed Valuation		32.69%	31.14%	30.20%

(a) Not a top ten taxpayer for respective year.

(b) Formerly called IMT Capital Rattan Creek LP.

**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 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 Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2015 through 2032) .....	\$545,962
\$0.07 Tax Rate on 2014 Certified Assessed Valuation of \$873,258,418 @ 95% collections produces .....	\$580,717
Maximum Annual Debt Service Requirements on the Bonds (2015).....	\$820,239
\$0.10 Tax Rate on 2014 Certified Assessed Valuation of \$873,258,418 @ 95% collections produces .....	\$829,595

**Debt Service Fund Management Index**

Debt Service Requirements for year ending 12/31/15 .....	\$820,239 <sup>(a)</sup>
Unaudited Debt Service Fund Balance as of 9/17/14 .....	\$176,282 <sup>(b)</sup>
Capitalized Interest included in the proceeds of the Bonds .....	\$308,351 <sup>(c)</sup>
2014 Tax Levy @ 95% collections produces .....	<u>\$548,363<sup>(d)</sup></u>
Total Available for Debt Service.....	<u>\$1,032,996</u>

(a) Interest payments on the Bonds begin February 1, 2015.

(b) Unaudited debt service fund balance of as of September 17, 2014; does not include any 2014 tax collections and represents debt service fund balance after all 2014 debt service requirements have been paid.

(c) Approximately twenty-one months 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 \$0.0661.

## 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 Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under 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 of the 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. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. 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 has granted a \$10,000 homestead exemption for those persons 65 years old or older or who are disabled, and a maximum \$15,000 homestead exemption for persons who are both 65 years old or older and disabled. 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 and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

**Freeport Goods and Goods-in-Transit Exemption.** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by

the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods and goods-in-transit are not exempt from taxation by the District.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the WCAD 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. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. The chief appraiser uses the method he or she considers the most appropriate. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

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 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 2013". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. 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 initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("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. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

### **No-Litigation Certificate**

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

## **No Material Adverse Change**

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

## **TAX MATTERS**

### **Opinion**

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

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

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

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

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

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

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

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

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue

Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

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

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

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

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

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

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

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

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

### **State, Local and Foreign Taxes**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligation, 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 \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

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

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

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

### Notice of Certain Events

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (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; (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, except to the extent described below.

On May 24, 2011, the District filed the annual financial report and annual financial operating data for the fiscal year ended September 30, 2010 with the MSRB through the EMMA system, which was more than six months after the end of the fiscal period. The District has established procedures to ensure future compliance with its continuing disclosure undertaking.

### **FINANCIAL ADVISOR**

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

### **OFFICIAL STATEMENT**

#### **Preparation**

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

"THE DISTRICT – City of Austin Consent Agreement" Armbrust & Brown, PLLC; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT" - Travis Central Appraisal District, Williamson Central Appraisal District and Records of the District ("Records"); "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water And Wastewater Operations" - Audits, Records and Tax Assessor/Collector; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," and "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 Murfee Engineering, and has been included in reliance upon the authority of said firm in the field of civil engineering.

The Auditor: The District's financial statements for the fiscal year ended September 30, 2013 were prepared by West, Davis & Company, Certified Public Accountants. See "Appendix A" for a copy of the District's Audited Financial Statements as of September 30, 2013.

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

Tax Assessor/Collector: The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Ms. Deborah M. Hunt, A/C and Mr. Bruce Elfant, A/C in reliance upon their authority in the field of tax assessing and collecting.

### **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 to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all 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.

### **Official Statement "Deemed Final"**

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

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "FINAL OFFICIAL STATEMENT" of the District with respect to the Bonds, as that term is defined in Rule 15c(2)-12.

### **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 \$250,000. Prior to selling bonds or having assets over \$250,000, 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 North Austin Municipal Utility District No. 1, as of the date shown on the first page hereof.

/s/ Alan McNeil  
President, Board of Directors  
North Austin Municipal Utility District No. 1

/s/ Jo Jones  
Secretary, Board of Directors  
North Austin Municipal Utility District No. 1

## PHOTOGRAPHS

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











## **APPENDIX A**

The information contained in this appendix has been excerpted from the audited financial statement of North Austin Municipal Utility District No. 1 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.

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1**

**FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2013**

# NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

## TABLE OF CONTENTS

	<u>Page</u>
<i>Annual Filing Affidavit</i> .....	1
<i>Independent Auditor’s Report</i> .....	2
<i>Management’s Discussion and Analysis</i> .....	MDA-1
 <i>Basic Financial Statements</i>	
Statement of Net Position and Governmental Funds Balance Sheet .....	FS-1
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balance .....	FS-2
<i>Notes to the Financial Statements</i> .....	FS-3
 <i>Required Supplemental Information (RSI)</i>	
Budgetary Comparison Schedule .....	FS-15
 <i>Texas Supplemental Information (TSI)</i>	
Services and Rates .....	TSI-1
General Fund Expenditures .....	TSI-2
Temporary Investments .....	TSI-3
Taxes Levied and Receivable .....	TSI-4
Long-Term Debt Service Requirements - By Years .....	TSI-5
Changes in Long-Term Bonded Debt .....	TSI-6
Comparative Schedule of Revenues and Expenditures	
General Fund and Debt Service Fund - Five Years .....	TSI-7
Board Members, Key Personnel and Consultants .....	TSI-8
 <i>Other Supplemental Information (OSI)</i>	
Principal Taxpayers .....	OSI-1
Assessed Value by Classification .....	OSI-2

# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS  
COUNTY OF TRAVIS

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
(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 **15th day of January, 2014** its annual audit report for the fiscal period ended **September 30, 2013** and that copies of the annual audit report have been filed in the District's office, located at:

**100 Congress Ave., 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)

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

Form TCEQ-0723 (Revised 10/2003)

# WEST, DAVIS & COMPANY

A LIMITED LIABILITY PARTNERSHIP

---

## **Independent Auditor's Report**

Board of Directors  
North Austin Municipal Utility District No. 1

We have audited the accompanying financial statements of the governmental activities and each major fund of North Austin Municipal Utility District No. 1 (the District) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 evaluation the overall presentation of the financial statements.

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

## **Opinion**

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the District at September 30, 2013, and the 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, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

As described in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The supplemental schedules required by the Texas Commission on Environmental Quality are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules required by the Texas Commission on Environmental Quality are the responsibility of management and were derived from and relate 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 our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules required by the Texas Commission on Environmental Quality are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*West Davis & Co*

Austin, Texas  
December 31, 2013

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

In accordance with Governmental Accounting Standards Board Statement 34 (“GASB 34”), the management of North Austin Municipal Utility District No. 1 (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 \$5,305,238, an increase of \$1,282,114 from the previous fiscal year. General fund revenues increased from \$5,962,467 in the previous fiscal year to \$6,476,445 in the current fiscal year primarily due to an increase in service account revenue.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$176,238 in the previous fiscal year to \$177,277 in the current fiscal year. Debt service fund revenues decreased from \$871,249 in the previous fiscal year to \$660,595 in the current fiscal year. The District made bond principal payments of \$550,000 and bond interest payments of \$101,732 during the fiscal year.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$2 in the previous fiscal year to \$-0- in the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$1,478,092. The District adjusted beginning of the year net position downward by \$58,927 to account for the effect of GASB 65 as explained in the *Notes to the Financial Statements*. Net position, including the prior period adjustment, increased from \$18,201,106 to \$19,620,271.

**OVERVIEW OF THE DISTRICT**

The District was created, organized and established on November 15, 1983, by the Texas Commission on Environmental Quality. The District operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District was created under the provisions of Article XVI, Section 59, of the Texas Constitution. The creation of the District was confirmed at an election held within the District on February 18, 1984. The District was created for the purpose of providing, operating and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and providing and operating park and recreational facilities.

The District is located partly in Williamson County and Travis County, Texas.

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
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 Financial Statements*
4. *Required Supplementary Information*
5. *Texas Supplemental Information* (required by the Texas Commission on Environmental Quality (the TSI section))
6. *Other Supplementary Information* (the OSI section)

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

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

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

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
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	\$ 6,355,080	\$ 5,309,143	\$ 1,045,937
Capital and non-current assets	16,119,512	16,476,268	(356,756)
<b>Total Assets</b>	<b>22,474,592</b>	<b>21,785,411</b>	<b>689,181</b>
Current Liabilities	1,439,321	1,648,232	(208,911)
Long-term Liabilities	1,415,000	1,995,000	(580,000)
<b>Total Liabilities</b>	<b>2,854,321</b>	<b>3,643,232</b>	<b>(788,911)</b>
Net Investment in Capital Assets	14,124,512	13,931,270	193,242
Restricted	177,378	175,808	1,570
Unrestricted	5,318,381	4,035,101	1,283,280
<b>Total Net Position</b>	<b>\$ 19,620,271</b>	<b>\$ 18,142,179</b>	<b>\$ 1,478,092</b>

The District's combined net position increased by \$1,478,092 to a balance of \$19,620,271 from the previous year balance of \$18,142,179. Some of the District's assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net assets, which can be used to finance day-to-day operations, totaled \$5,318,381.

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

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

**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2013	2012	
Property taxes	\$ 2,718,847	\$ 2,775,956	\$ (57,109)
Water/Wastewater/Garbage	4,138,273	3,890,103	248,170
Other	280,043	165,638	114,405
<b>Total Revenues</b>	<b>7,137,163</b>	<b>6,831,697</b>	<b>305,466</b>
Water/Wastewater/Garbage	3,361,728	3,429,335	(67,607)
Park and pool expenses	710,344	757,008	(46,664)
Other	787,443	783,687	3,756
Debt service	100,873	116,361	(15,488)
Depreciation/amortization	698,683	715,500	(16,817)
<b>Total Expenses</b>	<b>5,659,071</b>	<b>5,801,891</b>	<b>(142,820)</b>
<b>Change in Net Position</b>	<b>1,478,092</b>	<b>1,029,806</b>	<b>448,286</b>
<b>Beginning Net Position</b>	<b>18,142,179</b>	<b>17,112,373</b>	<b>1,029,806</b>
<b>Ending Net Position</b>	<b>\$ 19,620,271</b>	<b>\$ 18,142,179</b>	<b>\$ 1,478,092</b>

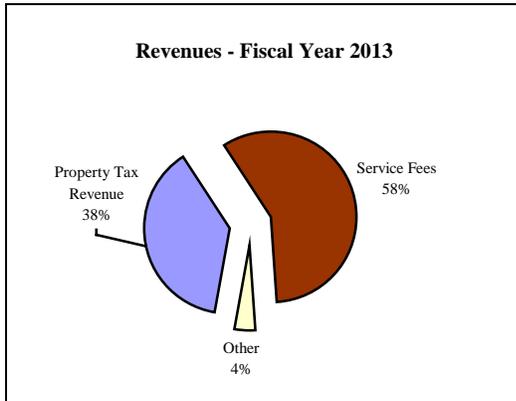
Revenues were \$7,137,163 for the fiscal year ended September 30, 2013 while expenses were \$5,659,071. Net position increased by \$1,478,092.

Property tax revenues in the current fiscal year totaled \$2,718,847. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2012 tax year (September 30, 2013 fiscal year) were based upon a current assessed value of \$730,102,296 and a tax rate of \$0.3719 per \$100 of assessed valuation. Property taxes levied for the 2011 tax year (September 30, 2012 fiscal year) were based upon an adjusted assessed valuation of \$726,237,845 and a tax rate of \$0.3819 per \$100 of assessed valuation.

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

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

**Revenues and Expenses (continued):**



The tax rate levied is determined after the District's Board of Directors reviews the General Fund budget requirements and the Debt Service fund debt service obligations of the District. The District's primary revenue sources are property taxes and service account revenues.

**ANALYSIS OF GOVERNMENTAL FUNDS**

Governmental Funds by Year

	2013	2012
Cash and cash equivalents	\$ 2,675,734	\$ 1,930,264
Investments	3,056,243	2,790,608
Receivables	592,518	552,848
Other	35,786	35,989
<b>Total Assets</b>	<b>\$ 6,360,281</b>	<b>\$ 5,309,709</b>
Accounts payable and accrued expenses	437,030	702,683
Refundable deposits	415,715	387,399
Other	5,201	20,263
<b>Total Liabilities</b>	<b>857,946</b>	<b>1,110,345</b>
Deferred Inflows of Resources	19,820	-
Restricted	177,277	176,238
Unassigned	5,305,238	4,023,126
<b>Total Fund Balance</b>	<b>5,482,515</b>	<b>4,199,364</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 6,360,281</b>	<b>\$ 5,309,709</b>

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2013**

**ANALYSIS OF GOVERNMENTAL FUNDS (continued) -**

For the fiscal year ended September 30, 2013, the District’s governmental funds reflect a combined fund balance of \$5,482,515.

This fund balance includes a \$1,282,114 increase in the General Fund Balance.

The Debt Service Fund reflects an increase of \$1,039 in fiscal year 2013. The Debt Service Fund remitted bond principal of \$550,000 and bond interest of \$101,732. More detailed information about the District’s debt is presented in the *Notes to the Financial Statements*.

The Capital Project Fund purchases the District’s infrastructure. The Capital Projects Fund had a \$2 decrease in fund balance for fiscal year 2013.

**BUDGETARY HIGHLIGHTS**

The *General Fund* pays for daily operating expenditures. The Board of Directors adopted a budget on September 11, 2013. The budget included revenues of \$6,688,847 as compared to expenditures of \$6,688,847. When comparing actual to budget, the District had a positive variance of \$1,282,114. 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 \$16,119,512 in land and infrastructure. The detail is reflected in the following schedule:

	<u>Summary of Capital Assets, net</u>	
	<u>9/30/2013</u>	<u>9/30/2012</u>
Capital Assets:		
Common and recreation areas	\$ 5,682,267	\$ 5,340,340
Water/Wastewater/Drainage	21,762,060	21,762,060
Less: Accumulated Depreciation	(11,324,815)	(10,626,132)
Total Net Capital Assets	<u>\$ 16,119,512</u>	<u>\$ 16,476,268</u>

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

**NORTH AUSTIN  
MUNICIPAL UTILITY DISTRICT NO. 1  
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 1999	1,265,000
Series 2003	730,000
Total	<u>\$ 1,995,000</u>

The District owes \$1.995 million to bond holders. More detailed information about the District’s long-term debt is presented in the *Notes to the Financial Statements*.

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

The property tax assessed value for 2013 is approximately \$832 million and the net taxable value is approximately \$775 million. The fiscal year 2013 tax rate is \$0.345 on each \$100 of taxable value. Approximately 75% of the property tax will fund general operating expenses, and approximately 25% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2014 projects no change to the operating fund balance.

**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.

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**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><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 683,228	\$ -	\$ -	\$ 683,228	\$ -	\$ 683,228
Investments	4,866,271	182,478	-	5,048,749	-	5,048,749
Receivables	585,841	6,677	-	592,518	-	592,518
Interfund receivable	5,201	-	-	5,201	(5,201)	-
Other current assets	30,585	-	-	30,585	-	30,585
Capital assets, net of accumulated depreciation - Common and recreation areas	-	-	-	-	2,679,267	2,679,267
Water/Wastewater/Drainage Facilities	-	-	-	-	13,440,245	13,440,245
<b>TOTAL ASSETS</b>	<b>\$ 6,171,126</b>	<b>\$ 189,155</b>	<b>\$ -</b>	<b>\$ 6,360,281</b>	<b>16,114,311</b>	<b>22,474,592</b>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 415,202	\$ -	\$ -	\$ 415,202	-	415,202
Accrued interest payable	-	-	-	-	6,576	6,576
Accrued expenditures	4,731	-	-	4,731	-	4,731
Retainage payable	17,097	-	-	17,097	-	17,097
Refundable deposits	415,715	-	-	415,715	-	415,715
Interfund payables	-	5,201	-	5,201	(5,201)	-
Bonds payable - Due within one year	-	-	-	-	580,000	580,000
Due after one year	-	-	-	-	1,415,000	1,415,000
<b>TOTAL LIABILITIES</b>	<b>852,745</b>	<b>5,201</b>	<b>-</b>	<b>857,946</b>	<b>1,996,375</b>	<b>2,854,321</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Property taxes	13,143	6,677	-	19,820	(19,820)	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>13,143</b>	<b>6,677</b>	<b>-</b>	<b>19,820</b>	<b>(19,820)</b>	<b>-</b>
<b><u>FUND BALANCE / NET POSITION</u></b>						
Fund balances:						
Restricted for debt service	-	177,277	-	177,277	(177,277)	-
Unassigned	5,305,238	-	-	5,305,238	(5,305,238)	-
<b>TOTAL FUND BALANCES</b>	<b>5,305,238</b>	<b>177,277</b>	<b>-</b>	<b>5,482,515</b>	<b>(5,482,515)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 6,171,126</b>	<b>\$ 189,155</b>	<b>\$ -</b>	<b>\$ 6,360,281</b>		
<b><u>NET POSITION:</u></b>						
Net investment in capital assets					14,124,512	14,124,512
Restricted for debt service					177,378	177,378
Unrestricted					5,318,381	5,318,381
<b>TOTAL NET POSITION</b>					<b>\$ 19,620,271</b>	<b>\$ 19,620,271</b>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCE**  
**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	\$ 2,058,818	\$ 659,906	\$ -	\$ 2,718,724	\$ 123	\$ 2,718,847
Water/wastewater service, including penalties	3,578,042	-	-	3,578,042	-	3,578,042
Garbage revenue	560,231	-	-	560,231	-	560,231
Interest	17,730	689	-	18,419	-	18,419
Grant proceeds	179,199	-	-	179,199	-	179,199
Other	82,425	-	-	82,425	-	82,425
<b>TOTAL REVENUES</b>	<b>6,476,445</b>	<b>660,595</b>	<b>-</b>	<b>7,137,040</b>	<b>123</b>	<b>7,137,163</b>
<b>EXPENDITURES / EXPENSES:</b>						
Current -						
Water/Wastewater purchases	2,848,332	-	-	2,848,332	-	2,848,332
Garbage service	513,396	-	-	513,396	-	513,396
Contracted services	330,062	7,109	-	337,171	-	337,171
Professional fees	239,623	-	-	239,623	-	239,623
Director fees and related expenses	33,398	-	-	33,398	-	33,398
Utilities	51,902	-	-	51,902	-	51,902
Park/pool expenses	710,344	-	-	710,344	-	710,344
Security	54,653	-	-	54,653	-	54,653
Other	70,696	-	-	70,696	-	70,696
Debt service -						
Principal	-	550,000	-	550,000	(550,000)	-
Interest	-	101,732	-	101,732	(1,574)	100,158
Fiscal agent fees	-	715	-	715	-	715
Capital outlay	341,927	-	-	341,927	(341,927)	-
Depreciation	-	-	-	-	698,683	698,683
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>5,194,333</b>	<b>659,556</b>	<b>-</b>	<b>5,853,889</b>	<b>(194,818)</b>	<b>5,659,071</b>
Excess (deficiency) of revenues over expenditures/expenses	1,282,112	1,039	-	1,283,151	194,941	1,478,092
<b>OTHER FINANCING SOURCES / (USES)</b>						
Operating transfer	2	-	(2)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES / (USES)</b>	<b>2</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>1,282,114</b>	<b>1,039</b>	<b>(2)</b>	<b>1,283,151</b>	<b>(1,283,151)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>					<b>1,478,092</b>	<b>1,478,092</b>
<b>FUND BALANCE / NET POSITION:</b>						
Beginning of the year	4,023,124	176,238	2	4,199,364	14,001,742	18,201,106
Prior period adjustment	-	-	-	-	(58,927)	(58,927)
End of the year	<u>\$ 5,305,238</u>	<u>\$ 177,277</u>	<u>\$ -</u>	<u>\$ 5,482,515</u>	<u>\$ 14,137,756</u>	<u>\$ 19,620,271</u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity** - The District was created, organized and established on November 15, 1983, by the Texas Commission on Environmental Quality under Article XVI, Section 59 of the Texas Constitution and Texas Water Code, Chapter 49. The District is located partly in Williamson County and Travis County. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement No. 14 which are included in the District's reporting entity.

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

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

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

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

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

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

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

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

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

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

*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.

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

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

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

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

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

**Budgets and Budgetary Accounting** – A budget was adopted on September 19, 2012, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end.

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

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

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

<u>Asset</u>	<u>Years</u>
Common and Recreation Areas	5 - 30
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Organizational Costs	5

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

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

***Long-Term Debt (continued) -***

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

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

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

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

***Accounting Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

**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		\$ 5,482,515
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -		
Capital assets	27,444,327	
Less: Accumulated depreciation	<u>(11,324,815)</u>	16,119,512
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		19,820
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -		
Bonds payable	(1,995,000)	
Accrued interest	<u>(6,576)</u>	<u>(2,001,576)</u>
Net position of governmental activities		<u>\$ 19,620,271</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		\$ 1,283,151
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Capital expenditures in period purchased	341,927	
Interest expenditures in year paid	1,574	
Tax revenue when collected	123	
Bond principal in year paid	<u>550,000</u>	893,624
Governmental funds do not report -		
Depreciation		<u>(698,683)</u>
Change in net position of governmental activities		<u>\$ 1,478,092</u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

**3. CASH AND INVESTMENTS**

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

***Cash*** - At September 30, 2013, the carrying amount of the District's cash was \$683,229 and the bank balance was \$738,066. The bank balance was covered by federal depository insurance and pledged securities.

***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.

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**3. CASH AND INVESTMENTS (continued) -**

***Investments (continued) –***

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

Investment	Fair Market Value at 9/30/2013	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)		
Texpool	\$ 1,752,314	\$ 1,569,836	\$ 182,478	\$ -	AAAm	Standard & Poors
Money Market	240,192	240,192	-	-	Various	Various
Certificates of Deposit	3,056,243	3,056,243	-	-	Various	Various
	<u>\$ 5,048,749</u>	<u>\$ 4,866,271</u>	<u>\$ 182,478</u>	<u>\$ -</u>		

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

(2) Restricted for Purchase of Capital Assets.

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

*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 covered by FDIC and other pledged collateral.

**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 establish appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Round Rock Independent School District bills and collects the District's property taxes. The Board of Directors set current tax rates on September 19, 2012.

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

**4. PROPERTY TAXES (continued)**

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 \$730,102,296 was \$0.3719 on each \$100 valuation and was allocated \$0.2818 to the General Fund and \$0.0901 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on April 7, 1984.

Property taxes receivable at September 30, 2013, consisted of the following:

	Debt		Total
	General Fund	Service Fund	
Current year levy	\$ 7,555	\$ 2,415	\$ 9,970
Prior years' levies	5,588	4,262	9,850
	\$ 13,143	\$ 6,677	\$ 19,820
	\$ 13,143	\$ 6,677	\$ 19,820

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	\$ 5,201	\$ -
<b>Debt Service Fund -</b>		
General Fund	-	5,201
	\$ 5,201	\$ 5,201
	\$ 5,201	\$ 5,201

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**6. RECEIVABLES**

The following comprises the receivable balance at year-end:

	<b>General Fund</b>		<b>Debt Service Fund</b>
Service, net of allowance for doubtful accounts of \$1,671	\$ 562,413	\$	-
Taxes	13,143		6,677
Interest	10,182		-
Other	103		-
	<u>\$ 585,841</u>	<u>\$</u>	<u>6,677</u>

**7. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	<b>Balance 10/1/2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2013</b>
Capital assets:				
Common and recreation areas	\$ 5,340,340	\$ 341,927	\$ -	\$ 5,682,267
Water/Wastewater/Drainage Facilities	21,762,060	-	-	21,762,060
Total capital assets	<u>27,102,400</u>	<u>341,927</u>	<u>-</u>	<u>27,444,327</u>
Less accumulated depreciation for:				
Common and recreation areas	(2,739,506)	(263,494)	-	(3,003,000)
Water/Wastewater/Drainage Facilities	(7,886,626)	(435,189)	-	(8,321,815)
Total accumulated depreciation	<u>(10,626,132)</u>	<u>(698,683)</u>	<u>-</u>	<u>(11,324,815)</u>
Total capital assets, net of accumulated depreciation	<u>\$ 16,476,268</u>	<u>\$ (356,756)</u>	<u>\$ -</u>	<u>\$ 16,119,512</u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

**8. BONDED DEBT**

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

	Unlimited Tax and Revenue Bonds
Bonds payable at October 1, 2012	\$ 2,545,000
Bonds retired	(550,000)
Bonds payable at September 30, 2013	\$ 1,995,000

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

**Unlimited Tax Bonds:**

\$3,350,000 – 1999 Unlimited Tax Bonds payable serially through the year 2018 at interest rates which range from 3.75% to 5.75%. Bonds maturing on or after August 1, 2010 are callable prior to maturity beginning August 1, 2009, or any date thereafter.

**Unlimited Tax Refunding Bonds:**

\$4,714,712 – 2003 Unlimited Tax Refunding Bonds payable serially through the year 2015 at interest rates which range from 2.0% to 3.25%. Bonds maturing on or after August 1, 2015 are callable prior to maturity beginning August 1, 2013, or any date thereafter.

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

2014	\$	580,000	\$	82,083	\$	662,083
2015		610,000		60,083		670,083
2016		250,000		36,850		286,850
2017		270,000		24,975		294,975
2018		285,000		12,825		297,825
		\$ 1,995,000		\$ 216,816		\$ 2,211,816

Bonds authorized but not issued as of September 30, 2013, are as follows:

Type	Amount
Unlimited Tax Bonds	\$ 54,825,000

\$177,277 is available in the Debt Service Fund to service the bonded debt.

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013**

---

**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.

**10. SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated and disclosed all material subsequent events through December 31, 2013.

**11. PRIOR PERIOD ADJUSTMENT**

GASB Statement No. 65 was implemented in the current fiscal year. Bond issuance costs previously reported as net assets to be amortized over the life of the related debt are not 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	\$ 18,201,106
Effect of Adjustments	<u>(58,927)</u>
New Position - October 1, 2012, As Adjusted	<u><u>\$ 18,142,179</u></u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
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	\$ 2,058,818	\$ 2,051,347	\$ 7,471
Water/wastewater service, including penalties	3,578,042	3,852,000	(273,958)
Garbage revenue	560,231	551,000	9,231
Interest	17,730	15,500	2,230
Grant proceeds	179,199	140,000	39,199
Other	82,425	79,000	3,425
<b>TOTAL REVENUES</b>	<u>6,476,445</u>	<u>6,688,847</u>	<u>(212,402)</u>
<b>EXPENDITURES/EXPENSES:</b>			
Current:			
Water/Wastewater purchases	2,848,332	3,617,768	769,436
Garbage service	513,396	513,796	400
Contracted services	330,062	328,000	(2,062)
Professional fees	239,623	405,300	165,677
Director fees and related expenses	33,398	46,000	12,602
Utilities	51,902	47,196	(4,706)
Park/pool expenses	710,344	988,388	278,044
Security	54,653	87,000	32,347
Other	70,696	441,899	371,203
Capital outlay	341,927	213,500	(128,427)
<b>TOTAL EXPENDITURES / EXPENSES</b>	<u>5,194,333</u>	<u>6,688,847</u>	<u>1,494,514</u>
Excess / (deficiency) of revenues over expenditures	<u>1,282,112</u>	<u>-</u>	<u>1,282,112</u>
<b>OTHER FINANCING SOURCES / (USES)</b>			
Operating transfer	<u>2</u>	<u>-</u>	<u>2</u>
<b>TOTAL OTHER FINANCING SOURCES / (USES)</b>	<u>2</u>	<u>-</u>	<u>2</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>1,282,114</u>	<u>\$ -</u>	<u>\$ 1,282,114</u>
<b>FUND BALANCE :</b>			
Beginning of the year	<u>4,023,124</u>		
End of the year	<u>\$ 5,305,238</u>		

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

**1. Services Provided by the District during the Fiscal Year:**

- |   |   |  |
|---|---|--|
| <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 checked="" type="checkbox"/> Irrigation |
| <input checked="" type="checkbox"/> Parks/Recreation  | <input type="checkbox"/> Fire Protection      | <input checked="" type="checkbox"/> Security   |
| <input checked="" 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):**

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$ 8.00 <sup>(1)</sup>	1,000	Y	\$ 4.30	1,001 to No Limit
WASTEWATER:	\$ 8.00	1,000	Y	\$ 6.30	1,001 to No Limit
BASE FEE:	\$ 18.00	-		\$ -	

District employs winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage: Water \$ 46.70 Wastewater \$ 64.70

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered			1.0	
< 3/4"	2,574	2,565	1.0	2,565
1"	6	6	2.5	15
1 1/2"	5	5	5.0	25
2"	14	14	8.0	112
3"	9	8	15.0	120
4"	5	5	25.0	125
6"			50.0	
8"	3	3	80.0	240
10"			115.0	
Total Water	2,616	2,606	██████████	3,202
Total Wastewater	2,605	2,596	1.0	2,596

<sup>(1)</sup> - Base Charge of \$34.00 includes 1,000 of water and wastewater service and monthly garbage collection.

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

Gallons pumped into system: 345,417

Gallons billed to customers: 341,261

<b>Water Accountability Ratio</b> (Gallons billed / Gallons Pumped) 98.8%
---

**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 County and Williamson County, Texas

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: \_\_\_\_\_

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

Entirely  Partly  Not at all

ETJ's in which district is located: Austin, Texas

Are Board members appointed by an office outside the district?

Yes  No

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**TSI-2. GENERAL FUND EXPENDITURES**  
**SEPTEMBER 30, 2013**

Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	10,276
Legal	139,145
Engineering	89,320
Financial Advisor	883
Purchased Services For Resale:	
Bulk Water and Wastewater Purchases	2,848,332
Garbage Collection	513,396
Contracted Services:	
Bookkeeping	54,750
General Manager	255,529
Appraisal District/Tax Collector	19,782
Other Contracted Services	54,653
Utilities	51,902
Administrative Expenditures:	
Directors' Fees	21,913
Office Supplies	-
Insurance	14,104
Other Administrative Expenditures	68,077
Capital Outlay:	
Capitalized Assets	341,927
Expenditures not Capitalized	-
Bad Debt	-
Parks and Recreation	710,344
Other Expenditures	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,194,333</b>

Number of persons employed by the District:

Full-Time

Part-Time

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**TSI-3. TEMPORARY INVESTMENTS**  
**SEPTEMBER 30, 2013**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b>General Fund -</b>					
State Investment Pool	XXX0004	Varies	N/A	\$ 1,569,836	\$ -
Money Market Account	XXX1120	Varies	N/A	240,192	-
Certificate of deposit	XXX4745	0.9000%	10/25/2013	245,000	2,065
Certificate of deposit	XXX5509	0.7500%	11/21/2013	240,000	1,549
Certificate of deposit	XXX6415	0.3200%	12/21/2013	150,000	-
Certificate of deposit	XXX1922	0.7300%	1/15/2014	240,000	1,248
Certificate of deposit	XXX5340	0.4500%	2/13/2014	245,000	689
Certificate of deposit	XXX3099	0.2500%	3/4/2014	245,000	352
Certificate of deposit	XXX0807	0.9000%	4/5/2014	245,000	1,072
Certificate of deposit	XXX0882	0.3494%	4/11/2014	240,000	394
Certificate of deposit	XXX6406	0.2000%	5/1/2014	240,000	200
Certificate of deposit	XXX8246	0.3500%	6/5/2013	240,000	268
Certificate of deposit	XXX0362	0.5000%	7/21/2014	240,000	233
Certificate of deposit	XXX4786	0.7000%	8/23/2014	241,243	178
Certificate of deposit	XXX0341	0.4500%	9/24/2014	245,000	1,934
Total				4,866,271	10,182
<b>Debt Service Fund</b>					
State Investment Pool	XXX0003	Varies	N/A	167,712	-
State Investment Pool	XXX0005	Varies	N/A	14,766	-
Total				182,478	-
Total - All Funds				\$ 5,048,749	\$ 10,182

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**TSI-4. TAXES LEVIED AND RECEIVABLE**  
**SEPTEMBER 30, 2013**

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>	
<b>Taxes Receivable, Beginning of Year</b>	\$ 11,977	\$ 7,720	
2012 Original Tax Levy, less abatements	2,043,115	653,246	
Adjustments	12,538	3,688	
Total to be accounted for	<u>2,067,630</u>	<u>664,654</u>	
Tax collections:			
Current year	2,050,343	655,557	
Prior years	4,144	2,430	
Total collections	<u>2,054,487</u>	<u>657,987</u>	
<b>Taxes Receivable, End of Year</b>	<u>\$ 13,143</u>	<u>\$ 6,667</u>	
<b>Taxes Receivable, By Years</b>			
2011 and prior	\$ 5,588	\$ 4,262	
2012	<u>7,555</u>	<u>2,415</u>	
<b>Taxes Receivable, End of Year</b>	<u>\$ 13,143</u>	<u>\$ 6,677</u>	
<b>Property Valuations:</b>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land and improvements	<u>\$ 730,102,296</u>	<u>\$ 726,237,845</u>	<u>\$ 725,290,613</u>
<b>Total Property Valuations</b>	<u>\$ 730,102,296</u>	<u>\$ 726,237,845</u>	<u>\$ 725,290,613</u>
<b>Tax Rates per \$100 Valuation:</b>			
Debt Service tax rates	\$ 0.0901	\$ 0.1194	\$ 0.1219
Maintenance tax rates	<u>0.2818</u>	<u>0.2625</u>	<u>0.2600</u>
<b>Total Tax Rates per \$100 Valuation:</b>	<u>\$ 0.3719</u>	<u>\$ 0.3819</u>	<u>\$ 0.3819</u>
<b>Adjusted Tax Levy</b>	<u>\$ 2,715,250</u>	<u>\$ 2,773,502</u>	<u>\$ 2,769,885</u>
<b>Percent of Taxes Collected to Taxes Levied **</b>	<u>99.6%</u>	<u>99.9%</u>	<u>99.9%</u>
<b>Maximum Tax Rate Approved by Voters:</b>	<u>\$ 1.00 on 4/7/1984.</u>		

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2013**

Fiscal Year Ending	Unlimited Tax Bonds Series 1999			Unlimited Tax Refunding Bonds Series 2003			Total - All Series		
	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
2014	\$ 225,000	\$ 58,358	\$ 283,358	\$ 355,000	\$ 23,725	\$ 378,725	\$ 580,000	\$ 82,083	\$ 662,083
2015	235,000	47,895	282,895	375,000	12,188	387,188	610,000	60,083	670,083
2016	250,000	36,850	286,850	-	-	-	250,000	36,850	286,850
2017	270,000	24,975	294,975	-	-	-	270,000	24,975	294,975
2018	285,000	12,825	297,825	-	-	-	285,000	12,825	297,825
	<u>\$ 1,265,000</u>	<u>\$ 180,903</u>	<u>\$ 1,445,903</u>	<u>\$ 730,000</u>	<u>\$ 35,913</u>	<u>\$ 765,913</u>	<u>\$ 1,995,000</u>	<u>\$ 216,816</u>	<u>\$ 2,211,816</u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**TSI-6. CHANGES IN LONG-TERM BONDED DEBT**  
**SEPTEMBER 30, 2013**

	<u>Series 1999</u>	<u>Series 2003</u>	<u>Total</u>
Interest Rate	3.75% - 5.75%	2.0% - 3.25%	
Dates Interest Payable	2/1 ; 8/1	2/1 ; 8/1	
Maturity Dates	8/1/2018	8/1/2015	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 1,475,000	\$ 1,070,000	\$ 2,545,000
Bonds Sold During the Current Fiscal Year	-	-	-
Retirements During the Current Fiscal Year:			
Principal	(210,000)	(340,000)	(550,000)
Refunded	-	-	-
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 1,265,000</u>	<u>\$ 730,000</u>	<u>\$ 1,995,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 67,808</u>	<u>\$ 33,925</u>	<u>\$ 101,733</u>
Paying Agent's Name & Address:	<u>JP Morgan Chase Bank</u> <u>Austin, TX</u>	<u>JP Morgan Chase Bank</u> <u>Austin, TX</u>	
Bond Authority:	<u>Unlimited Tax Bonds*</u>	<u>Refunding Bonds*</u>	<u>Park and Recreational Facilities Bonds*</u>
Amount Authorized by Voters:	<u>\$ 73,100,000</u>	<u>\$ -</u>	<u>\$ -</u>
Amount Issued	<u>18,275,000</u>	<u>-</u>	<u>-</u>
Remaining To Be Issued	<u>\$ 54,825,000</u>	<u>\$ -</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 and Temporary Investments balances as of September 30, 2013:	<u>\$ 182,478</u>
Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt:	<u>\$ 442,363</u>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS**  
**SEPTEMBER 30, 2013**

	Amounts				
	2013	2012	2011	2010	2009
<b>GENERAL FUND REVENUES -</b>					
Water/wastewater service, including penalties	\$ 3,578,042	\$ 3,364,032	\$ 3,712,882	\$ 2,533,785	\$ 2,972,842
Garbage revenue	560,231	526,071	443,371	413,822	380,390
Property taxes, including penalties	2,058,818	1,908,926	1,893,209	2,017,456	1,865,443
Interest	17,730	19,686	19,543	25,591	27,848
Grant proceeds	179,199	57,963	-	-	-
Other	82,425	85,789	235,662	76,057	844,817
<b>TOTAL GENERAL FUND REVENUES</b>	<b>6,476,445</b>	<b>5,962,467</b>	<b>6,304,667</b>	<b>5,066,711</b>	<b>6,091,340</b>
<b>GENERAL FUND EXPENDITURES -</b>					
Current:					
Water/wastewater service	2,848,332	2,940,113	3,226,186	2,627,976	3,252,739
Garbage service	513,396	489,222	450,972	405,378	350,938
Contracted service	330,062	306,676	281,156	278,320	310,327
Professional fees	239,623	232,695	217,710	128,890	144,776
Director fees and related expenses	33,398	46,409	44,603	30,732	34,557
Utilities	51,902	41,740	46,319	45,206	45,821
Park/pool expenses	710,344	757,008	651,043	606,779	641,469
Security	54,653	53,494	52,989	49,952	48,914
Other	70,696	72,810	79,657	136,481	116,095
Capital outlay	341,927	89,360	382,385	531,664	293,750
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>5,194,333</b>	<b>5,029,527</b>	<b>5,433,020</b>	<b>4,841,378</b>	<b>5,239,386</b>
<b>EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES OVER EXPENDITURES</b>	<b>\$ 1,282,112</b>	<b>\$ 932,940</b>	<b>\$ 871,647</b>	<b>\$ 225,333</b>	<b>\$ 851,954</b>
<b>DEBT SERVICE FUND REVENUES -</b>					
Property taxes, including penalties	\$ 659,906	\$ 869,070	\$ 888,303	\$ 931,600	\$ 1,218,455
Interest and other	689	2,179	4,768	5,517	16,926
<b>TOTAL DEBT SERVICE FUND REVENUES</b>	<b>660,595</b>	<b>871,249</b>	<b>893,071</b>	<b>937,117</b>	<b>1,235,381</b>
<b>DEBT SERVICE FUND EXPENDITURES -</b>					
Bond principal, interest and fiscal charges	652,447	949,152	953,398	1,261,429	1,207,019
Other	7,109	7,103	8,345	9,387	10,537
<b>TOTAL DEBT SERVICE FUND EXPENDITURES</b>	<b>659,556</b>	<b>956,255</b>	<b>961,743</b>	<b>1,270,816</b>	<b>1,217,556</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES OVER EXPENDITURES</b>	<b>\$ 1,039</b>	<b>\$ (85,006)</b>	<b>\$ (68,672)</b>	<b>\$ (333,699)</b>	<b>\$ 17,825</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>2,606</b>	<b>2,568</b>	<b>2,568</b>	<b>2,568</b>	<b>2,568</b>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>2,596</b>	<b>2,566</b>	<b>2,566</b>	<b>2,566</b>	<b>2,566</b>

**Percent of  
Fund Total Revenues**

<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
55.2%	56.4%	58.9%	50.0%	48.8%
8.7%	8.8%	7.0%	8.2%	6.2%
31.8%	32.0%	30.0%	39.8%	30.6%
0.3%	0.3%	0.3%	0.5%	0.5%
2.8%	1.0%	-	-	-
1.4%	1.5%	3.8%	1.5%	13.9%
<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
49.3%	49.3%	52.5%	51.9%	53.4%
8.3%	8.3%	7.3%	8.0%	5.8%
5.1%	5.1%	4.6%	5.5%	5.1%
3.7%	3.9%	3.5%	2.5%	2.4%
0.5%	0.8%	0.7%	0.6%	0.6%
0.8%	0.7%	0.8%	0.9%	0.8%
12.8%	12.8%	10.6%	12.0%	10.5%
0.8%	0.9%	0.9%	1.0%	0.8%
1.0%	1.1%	1.3%	2.7%	1.9%
5.2%	1.4%	6.2%	10.5%	4.7%
<b>87.5%</b>	<b>84.3%</b>	<b>88.4%</b>	<b>95.6%</b>	<b>86.0%</b>
<b>12.5%</b>	<b>15.7%</b>	<b>11.6%</b>	<b>4.4%</b>	<b>14.0%</b>
99.9%	99.7%	99.5%	99.4%	98.6%
0.1%	0.3%	0.5%	0.6%	1.4%
<b>100.0%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
98.9%	109.0%	106.8%	134.6%	97.7%
1.1%	0.8%	0.9%	1.0%	0.9%
<b>99.8%</b>	<b>109.8%</b>	<b>107.7%</b>	<b>135.6%</b>	<b>98.6%</b>
<b>0.2%</b>	<b>(9.8%)</b>	<b>(7.7%)</b>	<b>(35.6%)</b>	<b>1.4%</b>

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2013**

**Complete District Mailing Address:** 100 Congress Ave., Ste. 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):** April 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

<b>Name and Address:</b>	<b>Term of Office (Elected or Appointed) or Date Hired</b>	<b>Fees of Office Paid * 9/30/2013</b>	<b>Expense Reimbursements 9/30/2013</b>	<b>Title at Year End</b>
<i>Board Members:</i>				
ALAN MCNEIL	(Elected) 5/8/2010 - 11/4/2014	\$ 7,200	\$ 1,463	President
DONALD G. CONKLIN	(Elected) 5/8/2010 - 11/4/2014	\$ 5,850	\$ 1,424	Vice-President
JO JONES	(Elected) 11/6/2012 - 11/8/2016	\$ 600	\$ 1,577	Secretary
KEITH COLLINS	(Elected) 11/6/2012 - 11/8/2016	\$ 5,550	\$ 1,212	Assistant Secretary
KIM GREEN	(Appointed) 2/18/2013 - 11/8/2016	\$ 4,050	\$ 906	Assistant Secretary
<i>Consultants:</i>				
Armbrust & Brown, PLLC	4/1997	\$ 73,604	\$ -	Attorney
Murfee Engineering Company, Inc.	3/1987	\$ 67,318	\$ -	Engineer
Clearwater Management Company	9/1994	\$ 320,657	\$ -	Pool/Community Center Operations
Texascapes, Inc.	2/1992	\$ 261,193	\$ -	Landscape Maintenance
Bott & Douthitt, PLLC	10/2012	\$ 50,250	\$ -	District Accountant
Crossroads Utility Services, Inc.	6/2010	\$ 295,379	\$ -	Financial Advisor
Belt Harris Pechacek, LLP	7/2010	\$ 10,276	\$ -	Former Auditor
Round Rock ISD	10/2008	\$ 794	\$ -	Tax Collector

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**OSI-1. PRINCIPAL TAXPAYERS**  
**SEPTEMBER 30, 2013**

Taxpayer	Type of Property	Tax Roll Year		
		2013	2012	2011
State Farm Mutual Auto Insurance Co	N/A	\$ 41,825,091	\$ 41,291,841	\$ 41,166,369
HHC Amber Oaks LLC	N/A	33,613,858	36,551,504	37,208,820
Bell Fund IV Rattan Creek Apartments LLC	N/A	33,156,957	-	-
Fund Amber Oaks LLC	N/A	29,357,217	27,358,755	23,641,695
HHC Amber Oaks III LLC & Buchanan AO III Spe LLC	N/A	26,726,116	26,259,790	28,548,539
Fund Amber Oaks Phase 2 LLC	N/A	20,720,593	-	-
FPW/WC Lake Creek Associates LLC	N/A	18,500,000	17,456,786	16,496,642
REO Amber Oaks II LLC	N/A	15,538,863	13,424,318	10,671,053
LTF Real Estate Company Inc	N/A	12,583,992	12,781,080	12,051,363
Austin Jack LLC	N/A	9,234,049	9,234,049	8,957,027
IMT Capital Rattan Creek LP	N/A	-	27,509,243	23,641,695
SCI Parmer Fund 1 LLC	N/A	-	8,603,983	9,176,434
<b>Total</b>		<b>\$ 241,256,736</b>	<b>\$ 220,471,349</b>	<b>\$ 211,559,637</b>
Percent of Assessed Valuation		<b>31%</b>	30%	29% *

\* Certain properties are subject to agricultural exemptions which are not reflected above.

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**OSI-2. ASSESSED VALUE BY CLASSIFICATION**  
**SEPTEMBER 30, 2013**

Type of Property	Tax Roll Year					
	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Real Residential Single Family	\$ 544,689,672	70.2%	\$ 509,620,739	69.8%	\$ 485,557,354	66.9%
Multi-Family Residential	101,714,174	13.1%	79,796,361	10.9%	66,451,915	9.2%
Vacant Platted Lots/Tracts	13,060,147	1.7%	13,064,947	1.8%	14,368,444	2.0%
Real Acreage	4,346,374	0.6%	4,346,374	0.6%	4,332,374	0.6%
Real Commercial	138,329,048	17.8%	138,580,977	19.0%	138,589,079	19.1%
Utilities	1,508,157	0.2%	1,455,861	0.2%	1,527,650	0.2%
Tangible Personal Business	24,361,507	3.1%	21,706,843	3.0%	21,785,634	3.0%
Real Inventory	3,941,679	0.5%	3,028,044	0.4%	282,950	0.0%
Exempt	12,314	0.0%	8,396,118	1.1%	8,227,437	1.1%
Adjustments & Exemptions	(56,538,758)	-7.3%	(49,893,968)	-6.8%	(14,884,992)	-2.0%
Total	<u>\$ 775,424,314</u>	<u>100.0%</u>	<u>\$ 730,102,296</u>	<u>100.0%</u>	<u>\$ 726,237,845</u>	<u>100.0%</u>

**APPENDIX B**  
**Bond Counsel Opinion**

LAW OFFICES

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

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

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

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

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

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX AND REVENUE BONDS, SERIES 2014  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$6,200,000**

**AS BOND COUNSEL FOR THE NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on October 15, 2014, authorizing the issuance of the Bonds (the "Order").

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

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

**THE DISTRICT** reserves the right to issue additional bonds which will be payable from taxes; bonds, notes, and other obligations payable from revenues; and bonds payable from

contracts with other persons, including private corporations, municipalities, and political subdivisions.

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

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

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

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

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income

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

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

Respectfully,

**APPENDIX C**  
**Specimen Municipal Bond Insurance Policy**



**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

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

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

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIAL MEMBER

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN