

NEW ISSUE -BOOK-ENTRY-ONLY

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.

\$2,400,000

SIENA MUNICIPAL UTILITY DISTRICT No. 2

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

UNLIMITED TAX BONDS, SERIES 2017

Dated: August 16, 2017

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

Interest on the \$2,400,000 Siena Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2017 (the "Bonds") will accrue from the Date of Initial Delivery, defined below, and is payable March 1, 2018 and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds is BOKF, NA, Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar"). The Bonds are obligations solely of Siena Municipal Utility District No. 2 (the "District") and are not obligations of the City of Round Rock, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.

**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS,
REDEMPTION PROVISIONS and CUSIP NUMBERS**
(see inside cover page)

The Bonds, when issued, will constitute valid and legally binding obligations of the District payable solely 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." This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS" herein.

The Bonds are offered by the initial purchaser (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 and Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about August 16, 2017 (the "Date of Initial Delivery") in Austin, Texas.

MATURITIES
(Due September 1)

Due	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)	Due	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)
2018	\$ 75,000	2.000%	1.400%	82621RAZ0	2029	* \$ 100,000	3.250%	3.300%	82621RBL0
2019	75,000	2.000%	1.600%	82621RBA4	2030	* 100,000	3.375%	3.400%	82621RBM8
2020	75,000	2.000%	1.800%	82621RBB2	2031	* 100,000	3.375%	3.450%	82621RBN6
2021	75,000	2.000%	2.000%	82621RBC0	2032	* 100,000	3.500%	3.500%	82621RBP1
2022	75,000	3.000%	2.200%	82621RBD8	2033	* 100,000	3.500%	3.550%	82621RBQ9
2023	75,000	3.000%	2.400%	82621RBE6	2034	* 100,000	3.500%	3.600%	82621RBR7
2024	75,000	3.000%	2.600%	82621RBF3	2035	* 100,000	3.625%	3.650%	82621RBS5
2025	* 75,000	3.000%	2.800%	82621RBG1	2036	* 100,000	3.625%	3.700%	82621RBT3
2026	* 75,000	3.000%	3.000%	82621RBH9	2037	* 100,000	3.750%	3.750%	82621RBU0
2027	* 100,000	3.000%	3.100%	82621RBJ5	2038	* 100,000	3.750%	3.800%	82621RBV8
2028	* 100,000	3.125%	3.200%	82621RBK2	2039	* 100,000	3.750%	3.850%	82621RBW6
\$425,000 3.750% ^(a) Term Bond Due September 1, 2041 * Yield ^(b) 3.900% CUSIP Number 82621RBY2 ^(c)									

* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2025, in whole or from time to time in part, on September 1, 2024, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2041 (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 97.50% of par, resulting in a net effective interest rate to the District of 3.690583%.
- (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. The yields may be changed at any time at the discretion of the Initial Purchaser.
- (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. Neither the Initial Purchaser, the District, nor Public Finance Group LLC, the District's financial advisor (the "Financial Advisor") is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE CONTENTS OF THIS OFFICIAL STATEMENT ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE, AND PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN ATTORNEYS AND BUSINESS AND TAX ADVISORS.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of RBC Capital Markets, LLC (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.50% of par. 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 Initial 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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION (THE “SEC”) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE BONDS OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

The statements contained in this Official Statement, and in other information provided by the District, that are not purely historical, are forward-looking statements, including regarding the District’s expectations, hopes, intentions or strategies regarding the future. 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. See “RISK FACTORS – Forward-Looking Statements.”

NO MUNICIPAL BOND RATINGS OR INSURANCE

No application has been made to a rating service or municipal bond insurance company, nor is it expected that the District would have been successful in obtaining an investment grade rating or bond insurance commitment had such applications been made.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. Potential investors must read this entire Official Statement to obtain information essential to making an informed investment decision. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement. Investment in the Bonds is subject to certain risk factors. See "RISK FACTORS."

THE DISTRICT

The District	Siena Municipal Utility District No. 2 (the "District"), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), effective October 19, 2007 and confirmed pursuant to an election held within the District on November 6, 2012. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, and to collect and treat wastewater and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The District, as created, contained approximately 310.92 acres and currently contains approximately 333.23 acres. See "THE DISTRICT – General."
Location	The District is located entirely within the extraterritorial jurisdiction of the City of Round Rock, Texas ("Round Rock" or the "City"), is situated in Williamson County, and is located on the east side of County Road 110. The District is bound to the south by County Road 109 and is located approximately 6 miles northeast of downtown Round Rock. The Austin central business district is approximately 28 miles to the southwest. The District lies approximately two miles north of the intersection of Country Road 110 and State Highway 79. See "LOCATION MAP" and "THE DISTRICT - Location."
The Developer	The Developer currently active within the District is SEDC Devco, Inc., a Texas Corporation ("SEDC" or the "Developer"). The Developer is solely-owned and controlled by John Lloyd. See "THE DEVELOPER."
Status of Development	The District contains approximately 333.23 acres, of which approximately 297.98 acres are developable. As of June 1, 2017, approximately 149.21 acres (or 50.07% of the approximately 297.98 developable acres within the District) has been or is currently being developed with utility facilities as the single family residential subdivision Siena, Sections 1, 2, 5, 6, 7, 9, and 12, which encompass a total of 545 single-family lots, which include 215 completed homes, 36 homes under construction, 116 vacant single-family lots, and 178 single family lots under construction. Construction of the utility facilities to serve Section 7 (22.20 acres; platted as 79 single family lots) and Section 12 (25.69 acres; platted as 99 single family lots) began in March 2017 and are expected to be completed by September 2017. See "THE DISTRICT – Historical and Current Status of Development."
Homebuilders	According to the Developer, there are three homebuilders currently active within the District: Bohn Homes, Century Communities and Highland Homes. The homes range in price from \$224,990 to \$362,990, with square footage ranging from 1,596 to 3,899. See "THE DEVELOPER – Homebuilders within the District."

THE BONDS

Description	The Bonds in the aggregate principal amount of \$2,400,000 mature serially in varying amounts on September 1 of each year from 2018 through 2039, and as a Term Bond which matures September 1, 2041, as set forth on the inside cover page hereof. Interest accrues from the Date of Initial Delivery at the rates per annum set forth on the inside cover page hereof and is payable March 1, 2018 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
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Redemption	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2025, in whole or from time to time in part, on September 1, 2024, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2041 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 Round Rock, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	The Bonds constitute the second installment of bonds issued by the District. The District has not defaulted in the timely payment of principal of or interest on its previously issued obligations, entitled "\$2,600,000 Unlimited Tax Bonds, Series 2016" (the "Outstanding Bonds"). See "FINANCIAL STATEMENT - Outstanding Bonds." The proceeds of the Outstanding Bonds included 24 months of capitalized interest.
Authority for Issuance	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on November 6, 2012; the approving order of the Texas Commission on Environmental Quality (the "TCEQ"); and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."
Use of Proceeds.....	The proceeds of the Bonds will be used to finance the following: (i) remaining portion of engineering and testing costs associated with McNutt Wastewater Interceptor Lines D1 and D2; (ii) construction costs for McNutt Wastewater Interceptor Lines D1 and D2; (iii) water impact fees for Siena Sections 1, 2, 5 and a portion of water impact fees for Siena Section 6; (iv) wastewater impact fees for Siena Sections 1, 2 and 5; (v) operating costs; and (vi) preliminary engineering expenses. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay other costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."
Bonds Authorized But Unissued.....	At an election held within the District on November 6, 2012, voters within the District authorized a total of \$100,000,000 in aggregate principal amount of new money bonds for water, wastewater and drainage facilities. The Bonds constitute the second installment of bonds issued by the District. After the issuance of the Bonds, the District will have \$95,000,000 aggregate principal amount of remaining authorized but unissued unlimited tax new money bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$2,200,000 in aggregate principal amount of new money bonds for the acquisition and construction of parks and recreational facilities, and the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of water, wastewater & drainage new money bonds and park and recreation new money bonds issued, all of which remains authorized but unissued. See "FINANCIAL STATEMENT - Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."
No Municipal Bond Rating or Insurance	In connection with the sale of the Bonds, the District has not applied for a rating or a municipal bond insurance commitment on the Bonds, nor is it expected that an investment grade rating or a municipal bond insurance commitment would have been received had applications been made.

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 2017 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..... Randall Jones Engineering, Austin, Texas

Paying Agent / Registrar BOKF, NA, Austin, Texas

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION
(Unaudited)

2016 Certified Assessed Valuation	\$ 28,108,870	(a)
2017 Preliminary Assessed Valuation	\$ 54,519,174	(b)
Estimated Assessed Valuation as of June 1, 2017	\$ 61,850,000	(c)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 5,000,000	(d)
Ratio of Gross Debt to 2016 Certified Assessed Valuation	17.79%	
Ratio of Gross Debt to 2017 Preliminary Assessed Valuation	9.17%	
Ratio of Gross Debt to Estimated Assessed Valuation as of June 1, 2017	8.08%	
2016 Tax Rate		
Debt Service	\$ 0.3130	
Maintenance	0.6370	
Total 2016 Tax Rate	<u>\$ 0.9500</u>	(e)
Debt Service Fund Balance (as of July 19, 2017)	\$ 202,194	(f)
Percentage of current tax collections (Tax Years 2013-2016)	100.00%	(g)
Percentage of total tax collections (Tax Years 2013-2016)	100.00%	(g)
Average Annual Debt Service Requirement of the Bonds ("Average Requirement") (2018-2041, inclusive)	\$ 320,602	
Tax Rate required to pay Average Requirement based upon 2016 Certified Assessed Valuation at 95% collections	\$ 1.21 /\$100 AV	
Tax Rate required to pay Average Requirement based upon 2017 Preliminary Assessed Valuation at 95% collections	\$ 0.62 /\$100 AV	
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of June 1, 2017 at 95% collections	\$ 0.55 /\$100 AV	
Maximum Annual Debt Service Requirement of the Bonds ("Maximum Requirement") (2032)	\$ 355,913	
Tax Rate required to pay Maximum Requirement based upon 2016 Certified Assessed Valuation at 95% collections	\$ 1.34 /\$100 AV	
Tax Rate required to pay Maximum Requirement based upon 2017 Preliminary Assessed Valuation at 95% collections	\$ 0.69 /\$100 AV	
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of June 1, 2017 at 95% collections	\$ 0.61 /\$100 AV	
Number of active connections as of June 1, 2017		
Single Family - Complete and Occupied	209	
Single Family - Builder	42	
Total Number of Active Connections	251	
Estimated Population as of June 1, 2017	732	(h)

(Footnotes appear on following page)

- (a) The certified assessed valuation as of January 1, 2016, as provided by Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."
- (b) The preliminary assessed valuation as of January 1, 2017, as provided by WCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by WCAD. See "TAXING PROCEDURES."
- (c) Estimated assessed valuation as of June 1, 2017, as provided by WCAD, is included solely for purposes of illustration.
- (d) Includes the Bonds.
- (e) The District's Board, at its meeting in September 2016, levied a total tax rate of \$0.95. See "TAXING PROCEDURES."
- (f) Unaudited as of July 19, 2017. Does not include approximately twenty-four months of capitalized interest (\$177,148) to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
- (g) See "TAX DATA – Tax Collections."
- (h) Based upon 3.5 residents per completed and occupied single family home.

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OFFICIAL STATEMENT
relating to
\$2,400,000
SIENA MUNICIPAL UTILITY DISTRICT No. 2
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX BONDS, SERIES 2017

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Siena Municipal Utility District No. 2 (the “District”), a political subdivision of the State of Texas (the “State”), of its \$2,400,000 Unlimited Tax Bonds, Series 2017 (the “Bonds”).

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the “Bond Order”), Article XVI, Section 59 of the Constitution, and the 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 November 6, 2012; and the approving order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”).

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

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

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

THE BONDS

General Description

The Bonds will bear interest from the Date of Initial Delivery and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on March 1, 2018 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. 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 and registrar for the Bonds is BOKF, NA, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

Redemption

Optional Redemption... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2025, in whole or from time to time in part, on September 1, 2024, or on any date thereafter, at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption... In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2041 are subject to mandatory sinking fund redemption prior to maturity by lot or other customary redemption method 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:

\$425,000 Term Bond Maturing September 1, 2041	
Mandatory	
Redemption	Principal
<u>Date</u>	<u>Amount</u>
2040	\$ 100,000
2041*	325,000

*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 optional 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 optional 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 or other customary random method.

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 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 optional 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 ("Book-Entry-Only-System"). 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 the denominations of \$5,000 or any integral multiple thereof.

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

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

Authority for Issuance

At an election held within the District on November 6, 2012, voters within the District authorized a total of \$100,000,000 in aggregate principal amount of new money bonds for water, wastewater and drainage facilities. The Bonds constitute the second installment of bonds issued by the District. After the issuance of the Bonds, the District will have \$95,000,000 aggregate principal amount of remaining authorized but unissued unlimited tax new money bonds for water, wastewater and drainage facilities. Additionally, at the election held in the District on November 6, 2012, the voters within the District also approved the issuance of \$2,200,000 in aggregate principal amount of new money bonds for the acquisition and construction of parks and recreational facilities, and the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of water, wastewater & drainage new money bonds and park and recreation new money bonds issued, all of which remains authorized but unissued.

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 an order of the TCEQ.

Source of and Security for Payment

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond 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 all taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in

part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if the City annexes and dissolves the District and assumes all debts and liabilities of the District.

Under Texas law, the District may be annexed and dissolved by the City without the consent of the District or its residents. If the District is annexed, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

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

Payment Record

The Bonds constitute the second installment of bonds issued by the District. The District has not defaulted in the timely payment of principal of or interest on its previously issued obligations, entitled "\$2,600,000 Unlimited Tax Bonds, Series 2016" (the "Outstanding Bonds"). See "FINANCIAL STATEMENT - Outstanding Bonds." The proceeds of the Outstanding Bonds included 24 months of capitalized interest.

Flow of Funds

The Bond Order creates a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart on the books and record of the District from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of the State of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

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

Capital Projects Fund... The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then in the discretion of the Board of Directors of the District to transfer such unexpended proceeds or income to the Debt Service Fund or to utilize such funds as otherwise authorized by the TCEQ.

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by the initial Paying Agent/Registrar, BOKF, NA, having an office for payment in Austin, Texas. Any 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.

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 and the District will have no further responsibility with respect to the payment of such Defeased Bonds including any insufficiency to receive payments when due on the Defeased Securities.

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 Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

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

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

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

Retention of Rights . . . To the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call the Defeased Bond for redemption in accordance with the provisions of the order authorizing its 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.

Record Date

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

Issuance of Additional Debt

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ, if applicable, and, in the case of bonds payable from taxes, the District's voters. See "THE BONDS – Authority for Issuance" for details regarding authorized but unissued Bonds of the District. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bond which may be issued by the District. Any additional bonds issued by the District may dilute the security for the Bonds.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval of the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a municipal utility 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 municipal utility 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 "NO MUNICIPAL BOND RATINGS OR INSURANCE".

The Bonds are not rated and 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 covenants 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 omit 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 non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Additional Covenants

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

Remedies in Event of Default

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to 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 system with the water 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 system with that of any other district.

Annexation

The District lies entirely within the extraterritorial jurisdiction of the City. Under Texas law, the territory within the District may be annexed in whole, but not in part, by the City without the consent of the District. If annexation of the balance of the territory in the District by the City does occur, the District would be abolished within 90 days after annexation. When the District is abolished, the City must assume the assets, functions and obligations of the District including the Bonds. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur.

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 effect any change in its boundaries.

Approval of the Bonds

The TCEQ approved the issuance of the Bonds by an order signed on June 6, 2017 (the “TCEQ Order”).

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

Amendments to the Bond Order

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the following: (i) remaining portion of engineering and testing costs associated with McNutt Wastewater Interceptor Lines D1 and D2; (ii) construction costs for McNutt Wastewater Interceptor Lines D1 and D2; (iii) water impact fees for Siena Sections 1, 2, 5 and a portion of water impact fees for Siena Section 6; (iv) wastewater impact fees for Siena Sections 1, 2 and 5; (v) operating costs; and (vi) preliminary engineering expenses. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay other costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$1,674,685 is required for construction costs, and \$725,315 is required for non-construction costs, including \$177,148 of capitalized interest (approximately twenty-four months' interest calculated at 3.690583%).

Construction Costs

A. Developer Contribution Items

None	\$ -
Total Developer Contribution Items	\$ -

B. District Items

1. McNutt Wastewater Interceptor Line D1 and D2	\$ 373,769
2. Engineering and Testing (4.8% of McNutt Wastewater Line D1 & D2)	18,037
3. Water Capacity Impact Fees - Jonah Special Utility District	791,000
4. Wastewater Capacity Impact Fees - City of Round Rock	439,476
5. Preliminary Engineering - Surveying	<u>52,403</u>
Total District Items	\$ 1,674,685

Total Construction Costs

\$ 1,674,685

Non-Construction Costs

A. Legal Fees (3.0%)	\$	72,000
B. Fiscal Agent Fees (2.5%)		60,000
C. Interest Costs		
1 Capitalized Interest (24 months @ 3.690583%)		177,148
2 Developer Interest ^(a)		181,376
D. Bond Discount (2.5%)		60,000
E. Bond Issuance Expenses		30,905
F. Bond Application Report Costs		42,000
G. Operational Costs (2.28%)		54,634
H. Attorney General Fee (0.10%)		2,400
I. TCEQ Bond Issuance Fee (0.25%)		6,000
J. Contingency ^(b)		38,852
Total Non-Construction Costs	\$	725,315

TOTAL BOND ISSUE REQUIREMENT

\$ 2,400,000

- (a) Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.
- (b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEO rules on use of surplus Bond funds.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of the City of Round Rock, Texas; Williamson County, Texas; the State of Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See “THE BONDS - Source of and Security for Payment.”

The ultimate security for payment of principal of and interest on the Bonds depends on the ability of the District to collect from the property owners within the District all taxes levied against the property or, in the event of foreclosure, on the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of property within the District will occur or that the development in the District will maintain taxable values sufficient to justify continued payment by property owners or that there will be a market for the property. See “RISK FACTORS - Registered Owners' Remedies.”

Factors Affecting Taxable Values and Tax Payments

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

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which developers and homebuilders are able to obtain financing for development and construction costs. 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 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 economies.

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

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

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

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Certified Assessed Valuation of the District is \$28,108,870. After issuance of the Bonds, the Maximum Requirement will be \$355,913 (2032) and the Average Requirement will be \$320,602 (2018 through 2041, inclusive). Assuming (1) no increase or decrease from the 2016 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$1.34 and \$1.21 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay

the Maximum Requirement and the Average Requirement, respectively. The District's 2017 Preliminary Assessed Valuation is \$54,519,174. Based upon the assumptions above, tax rates of \$0.69 and \$0.62 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. The District's Estimated Assessed Valuation as of June 1, 2017 is \$61,850,000. Based upon the assumptions above, tax rates of \$0.61 and \$0.55 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Dependence Upon the Developer, Lot Owners and Homebuilders: The growth of the tax base is dependent upon additional development of lots in the District and the construction of homes thereon. The Developer is under no obligation to continue to market, or improve, or to develop tracts of land. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment by the Developer. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowner to whom such party may sell all or a portion of its holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances or regulations may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts or failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. See "THE DEVELOPER."

The ten principal taxpayers in the District represented \$9,619,086 or 34.22% of the District's 2016 Certified Taxable Assessed Valuation of \$28,108,870. The Developer represented \$2,823,087 or 10.04% of such assessed valuation. The Developer, homebuilders and related entities represented \$7,909,483 or 28.14% of such assessed valuation. If the Developer or homebuilders (or other principal taxpayer) were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

Undeveloped Acreage . . . Approximately 148.77 acres of developable land within the District have not been provided with water, wastewater, storm drainage and detention facilities as of June 1, 2017. Additionally, construction of the utility facilities to serve approximately 47.89 acres of land within the District are currently underway as of June 1, 2017. In the opinion of the District's engineers, the remaining authorized but unissued bonds should be sufficient to fund water, sanitary sewer and drainage services to all areas now within the District. See "THE BONDS – Alteration of Boundaries" and "THE DISTRICT – Status of Development."

Development and Home Construction in the District . . . As of June 1, 2017, approximately 116 developed lots within the District remained available for construction. Failure of the Developer and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by builders. See "Impact on District Tax Rates" above.

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 of the Bonds are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, registered owners to enforce such remedies. The rights and remedies of the registered owners and the enforceability of the Bonds may also be limited by bankruptcy, reorganization and other similar laws affecting the enforcement of creditors' rights generally.

Registered Owners' Remedies

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

registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

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.

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 State 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 municipal utility 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.

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.

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

As of June 1, 2017, approximately 101.32 acres of land within the District had been developed with utility facilities by the Developer. According to information obtained by Randall Jones Engineering, (the "Engineer"), the Developer has advanced approximately \$8,875,169 in construction costs, of which approximately \$5,227,544 (plus engineering and impact fees) will remain owing to the Developer after the issuance of the Bonds.

Therefore, the Developer is owed additional funds with reimbursements expected to be made from the proceeds of future installments of bonds over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPER – Utility Construction Agreements." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the 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."

The District has reserved in the Bond Order the right to issue the remaining authorized but unissued bonds approved by the voters. See "THE BONDS – Authority for Issuance." All of the remaining unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ.

Governmental Approval

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The TCEQ approved the issuance of the Bonds by an order signed on June 6, 2017 (the "TCEQ Order"). 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.

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.

Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

The forward looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic competitive, and market conditions and future business decisions, all of which are

difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Environmental Regulation

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

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

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

Air Quality Issues. The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted an ozone standard with a standard for fine particulates, often referred to as the 8-hour standard because it is based on an 8-hour average and is intended to protect public health against longer exposure. In 2008, the EPA tightened the existing eight-hour ozone standard from 0.08 ppm to 0.075 ppm. The Austin area, consisting of Williamson, Hays, Travis, Bastrop, and Caldwell Counties (the "Austin Area"), was not designated "nonattainment" for any NAAQS by the EPA in 2012; however, the Austin Area has been just below the 2008 eight-hour ozone standard.

On November 26, 2014, the EPA announced a new proposed ozone NAAQS range of between 65-70 ppb. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

Should the Austin Area fail to achieve attainment under an EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of the nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development 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 is 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 has adopted 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.

Future and Proposed Legislation

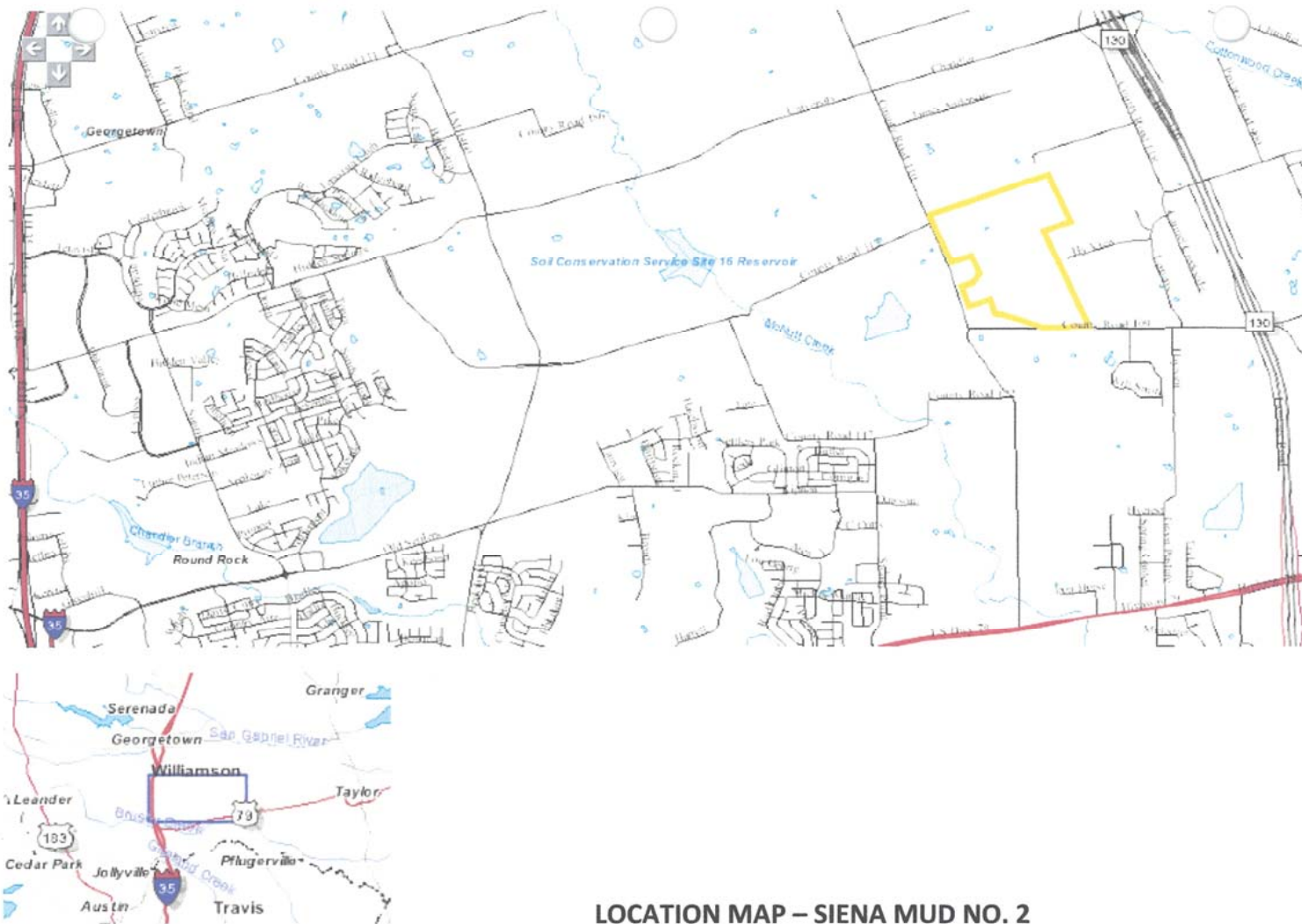
Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal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

Drought Conditions

Central Texas, like other areas of the State, is susceptible to drought conditions. Jonah Water Special Utility District ("Jonah") provides water to the District in amounts sufficient to service the residents of the District; however, if the District experiences drought conditions, water usage and rates could be impacted.

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LOCATION MAP



LOCATION MAP – SIENA MUD NO. 2

THE DISTRICT

General

The District was created by order of the TCEQ, effective October 19, 2007, confirmed pursuant to an election held within the District on November 6, 2012, and operates under Chapters 49 and 54, Texas Water Code, as amended.

The District was created to provide water, wastewater and drainage services to the property within the District currently being developed as a mixed-use development. The District has entered into utility construction agreements with the Developer in order to facilitate the construction of water, wastewater and drainage facilities to serve property within its boundary.

At the time of creation, the District contained approximately 310.92 acres of land. Since the creation of the District, there has been one annexation of land into the District. On March 23, 2016, approximately 22.31 acres of land were annexed into the District, bringing the current total District acreage to approximately 333.23 acres.

Management

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.

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Jeff O’Jibway	President	2018	3 Years
Tony Stein	Vice President	2020	5 Years
Adam Kruger	Secretary	2020	5 Years
Patrick Shelton	Treasurer	2020	3 ½ Years
Toby Thurman	Assistant Secretary/Treasurer	2018	3 Years

Consultants

Tax Assessor/Collector

Land and improvements in the District are being appraised by the Williamson Central Appraisal District (“WCAD”). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Williamson County Tax Assessor/Collector, Mr. Larry Gaddes, currently serves the District in this capacity under contract.

Engineer

The District’s consulting engineer is Randall Jones Engineering, Inc. (the “Engineer”). Such firm serves as consulting engineer to 15 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 of and delivery of the Bonds.

General Counsel

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

Location

The District is located entirely within the extraterritorial jurisdiction of the City of Round Rock, Texas ("Round Rock" or the "City"), is situated in Williamson County, and is located on the east side of County Road 110. The District is bound to the south by County Road 109 and is located approximately 6 miles northeast of downtown Round Rock. The Austin central business district is approximately 28 miles to the southwest. The District lies approximately two miles north of the intersection of Country Road 110 and State Highway 79.

Historical and Current Status of Development

The District as originally created contained approximately 310.92 acres. Since the creation of the District, there has been one annexation of land into the District. On March 23, 2016, approximately 22.31 acres of land were annexed into the District, bringing the current total District acreage to approximately 333.23 acres.

The District was created by order of the Commission effective October 19, 2007, and confirmed pursuant to an election held within the District on November 6, 2012.

In September 2005, three entities – Double J Investments, L.P., Easy Kyle Investments, L.P., and RSP Partners Development, LP – purchased approximately 894.38 acres, land comprising both the District and Siena Municipal Utility District No. 1 ("Siena No. 1"), from Joe Stafford. To fund infrastructure, these entities obtained a land and infrastructure loan in the approximate amount of \$11,477,000 from International Bank of Commerce (the "Infrastructure Loan") secured by land within the District and Siena No. 1. According to the Developer, the Infrastructure Loan has been repaid in full.

RSP Partners Development, LP acquired and has been developing the land west of County Road 110, which is located in Siena No. 1. Subsequently, SEDC has acquired virtually all land in the District east of County Road 110 from Double J Investments, LP, and Easy Kyle Investments, LP, financed by seller notes to each respective entity which are secured by land within the District but subordinated to the Development Loan (as hereafter defined). The seller notes have a current outstanding balance in the approximate amount of \$7,003,131 as of June 12, 2017 for both the District and Siena No. 1. See "THE DEVELOPER – Acquisition and Development Financing."

In March 2017, Siena North Devco, Inc., an entity related to the Developer, acquired approximately 22 acres of land within the District from SEDC.

As of June 1, 2017, SEDC had completed the development of utility facilities serving approximately 101.32 acres within the District, developed as Sections 1 (34.14 acres; platted as 106 single family lots); 2 (9.37 acres; platted as 45 single family lots); 5 (13.89 acres; platted as 61 single family lots); 6 (21.56 acres; platted as 88 single family lots); and 9 (22.36 acres; platted as 67 single family lots). SEDC began construction of the utility facilities to serve Section 7 (22.20 acres; platted as 79 single family lots) and Section 12 (25.69 acres; platted as 99 single family lots) in March 2017, and both sections are expected to be completed by September 2017.

As of June 1, 2017, the development in the District consists of 545 single-family lots, which include 215 completed homes, 36 homes under construction, 116 vacant single-family lots, and 178 single family lots under construction.

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The following chart reflects the status of development as of June 1, 2017:

Section	Acreage	Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
A. Single Family Developed with Utility Facilities					
Section 1	34.14	106	104	1	1
Section 2	9.37	45	44	1	-
Section 5	13.89	61	47	3	11
Section 6	21.56	88	14	16	58
Section 9	22.36	67	6	15	46
Total Single Family Developed with Utilities	101.32	367	215	36	116
B. Utility Facilities Currently Under Construction					
Section 7	22.20	79			
Section 12	25.69	99			
Total Utility Facilities Currently Under Construction	47.89	178			
C. Total Developed or Currently Under Construction	149.21	545			
D. Remaining Developable Acreage	148.77				
E. Undevelopable Acreage					
Drainage/Open Space	18.90				
Amenity Center	1.32				
Detention Ponds	15.03				
Total Undevelopable Acreage	35.25				
Total District Acreage	333.23				

Future Development

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect the ability to sell lots and/or property and of any homebuilder to sell completed homes as described in this Official Statement under the caption “RISK FACTORS.” If the undeveloped portion of the District is eventually developed, additions to the water, wastewater, and drainage system required to service such undeveloped acreage may be financed by future District bond issues, if any, and developer contributions, if any, as required by the TCEQ. The District’s Engineer estimates that the \$95,000,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer for the existing utility facilities and provide utility service to the remaining undeveloped but potentially developable acres within the District. See “THE BONDS – Issuance of Additional Debt.” The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in their sole discretion. Accordingly, the District makes no representation that future development will occur.

Development Agreement with the City of Round Rock

Effective October 12, 2006, the City of Round Rock (“Round Rock”) and RSP Partners Development, L.P. (formerly Double J Investments, L.P.) entered into an Amended and Restated Consent Agreement, as amended (“Consent Agreement”), under the terms of which Round Rock consented to the creation of both the District and Siena Municipal Utility District No. 1 (“Siena MUD No. 1”). The Consent Agreement also includes, among other things, terms regarding: (i) the Developer’s cost participation in and Round Rock’s reservation of capacity for the District and Siena MUD No. 1 in the “McNutt Interceptor Project” (as defined in the Consent Agreement), which is a Round Rock wastewater interceptor project which has been constructed to transport wastewater from the McNutt drainage basin, which includes the District and Siena MUD No. 1, to the Brushy Creek Regional Wastewater Treatment Plant and certain off-site water facilities to serve the land within the District and Siena MUD No. 1; (ii) the development of the land within the District and Siena MUD No. 1; and (iii) Round Rock’s provision of wholesale wastewater service to the District and Siena MUD No. 1. The Consent Agreement also confirms Round Rock’s approval of the concept plan for the development of the land in the District and Siena MUD No. 1 and provides for the Developers’ construction of certain roadway improvements required by Round Rock. Under the Consent Agreement, Round Rock agreed that it would not annex the District until (i) water, wastewater and drainage facilities have been

completed to serve at least 90% of the developable acreage within the District and (ii) (a) the Developer has been reimbursed by the District for those facilities in accordance with the rules of the TCEQ or (b) Round Rock has agreed to assume the obligation to reimburse the Developer under those rules. The Consent Agreement expires in October 2021, unless extended at the Developer's request with City Council approval, for up to two successive 15 year periods.

THE DEVELOPER

Role of Developer

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, a developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which a developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

Description of the Developer

The Developer currently active within the District is SEDC Devco, Inc., a Texas Corporation ("SEDC" or the "Developer").

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

Acquisition and Development Financing

In addition to the seller notes to finance acquisition of land within the District and the Infrastructure Loan (see "THE DISTRICT – Historical and Current Status of Development"), to finance development within the District, the Developer has obtained an additional revolving line of credit in the approximate amount of \$5,000,000, also secured by land within the District, from International Bank of Commerce (the "Development Loan"), with a current outstanding balance in the approximate amount of \$324,401.47 as of June 12, 2017. According to the Developer, the Developer is in compliance with the terms of the Development Loan.

Homebuilders within the District

According to the Developer, there are three homebuilders currently active within the District: Brohn Homes, Century Communities and Highland Homes. The homes range in price from \$224,990 to \$362,990, with square footage ranging from 1,596 to 3,899. According to the Developer, all three homebuilders are in compliance with their respective lot sales contracts pursuant to which each respective builder must take down 5 lots per quarter (for a total of 15 lots per quarter).

Home construction in the District began in 2014. The following chart illustrates the number of homes built per year starting in 2014.

Calendar Year	No. of Single-Family Homes Constructed
2014	13
2015	71
2016	85
2017	82*

* As of June 1, 2017. Includes 46 completed homes and 36 homes under construction as of June 1, 2017.

Utility Construction Agreements

The District has entered into utility construction agreements with the Developer governing the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. The District has also entered into a utility construction agreement with Siena North Devco, Inc., governing the development of water, wastewater and drainage facilities on approximately 22 acres of land within the District, and the reimbursement for certain of the costs of development of such acreage through the issuance of bonds by the District.

Agricultural Waiver

A portion of the undeveloped acreage within the District is subject to an agricultural exemption, however, the Developer has executed agreements, which are recorded in the real property records of Williamson County, and are covenants running with the land, waiving the right to have the land located within Siena, Sections 1, 2, 5, 6, 7, 9 and 12 classified as agricultural, open-space or timberland. In addition, the Developer has waived the right to have the lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the TCEQ and is binding on purchasers of such land from the Developer. See "TAXING PROCEDURES – Property Subject to Taxation by the District."

THE SYSTEM

Regulation

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

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the US Environmental Protection Agency and the TCEQ. The rules and regulations promulgated by these agencies change periodically and are subject to further development and revision. The TCEQ makes annual inspections of the water and wastewater systems to assure compliance with their rules.

Water Supply and Distribution

The District receives its potable water from Jonah Water Special Utility District ("Jonah") pursuant to a development agreement between the District, Siena MUD No. 1 and RSP Partners Development, LP, as amended (the "Development Agreement"). The Development Agreement with the District and Siena MUD No. 1 provides for retail water in an amount sufficient to serve up to 3,969 living-unit-equivalents ("LUEs"). Of the 3,969 LUEs of capacity, 1,616 are allocated to the District and 2,353 are allocated to Siena MUD No. 1. Jonah has affirmed that it has sufficient water supply to serve the District. Under the Development Agreement, the Developer has agreed to pay Jonah for impact fees or other water capital recovery fees on behalf of the District as authorized by law in accordance with Jonah's policies.

Wastewater Collection and Treatment

Pursuant to the Wholesale Wastewater Agreement between the District and the City of Round Rock, dated June 27, 2013, (the "Wastewater Agreement"), as amended, Round Rock provides wholesale wastewater collection and treatment services to the District. Pursuant to the Wastewater Agreement, Round Rock collects wastewater from the District through the McNutt Wastewater Interceptor. Additionally, per the Wastewater Agreement, Round Rock has assigned 2,544 LUEs of wastewater collection and treatment capacity for the District, which, under the current land plan, should be sufficient to serve the District at ultimate development.

Under the Wastewater Agreement, the District collects wastewater impact fees for all new connections and remits them to Round Rock. The Wastewater Agreement also provides for winter wastewater averaging for billing purposes.

Round Rock obtains wastewater treatment service through the Brushy Creek Regional Wastewater Treatment Facility ("BCRWTF"). The BCRWTF operates under TPDES Permit #WQ0010264002 and has a treatment capacity of 21.5 MGD.

The District owns and operates the wastewater collection system within its boundaries.

Pursuant to the Consent Agreement, Round Rock agreed to construct the McNutt Interceptor Segment A to serve the District and Siena MUD No. 2. The Developer has agreed to pay for 3,975 LUE's of capacity in Segment A on behalf of the District and Siena MUD No. 1. Segment A extends from the BCRWTF to McNutt Interceptor Segment D, which serves the District and Siena MUD No. 1.

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.

100-Year Flood Plain

According to the District's Engineer, approximately 13.08 acres within the District are located within the 100-year flood plain, as identified by the Federal Flood Insurance Administration Rate Maps No. 48491C0505E and 48491C0515E for Williamson County, Texas, dated September 26, 2008. 19 lots proposed for future development are currently located within the 13.08 acres within the 100-year flood plain. The Developer will file a Letter of Map Revision ("LOMR") with the Federal Emergency Management Agency ("FEMA") to remove these lots from the flood plain with future development. None of the 300 lots developed or under construction at this time are located within the 100-year flood plain.

Water, Wastewater and Drainage Operations - Rate and Fee Schedule - Table 1

Jonah provides retail water services to residents within the District and Round Rock provides wholesale wastewater services to residents within the District. The following rates, effective January 1, 2016, are charged to District residents.

Water (monthly billings) Residential:

Monthly Base Charge

Meter Size

5/8" & 3/4"	\$ 32.91
1"	82.28
1 1/2 "	164.55
2 "	246.83

Volume Charge for all meter sizes:

0-15,000 gallons	\$ 3.16 per 1,000 gallons
15,001-30,000	4.74 per 1,000 gallons
30,001-50,000	6.30 per 1,000 gallons
50,001+	7.85 per 1,000 gallons

Wastewater (monthly billings) Residential:

Monthly Base Charge

Meter Size

5/8"	\$ 13.27
3/4"	17.31
1"	24.82
1 1/2 "	45.26
2 "	69.79

Volume Charge for all meter sizes:

.....	\$ 3.39 per 1,000 gallons
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Solid Waste

Monthly Charge	\$ 17.61 plus applicable taxes
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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 End				
	5/31/2017 ^(a)	9/30/2016 ^(b)	9/30/2015 ^(b)	9/30/2014 ^(b)	9/30/2013 ^(c)
REVENUES					
Property taxes, including penalties	\$ 179,100	\$ 74,976	\$ 44,860	\$ 13,906	\$ -
Drainage Fees	75,000	69,000	61,500	14,250	-
Wastewater Revenue/Garbage Collection	53,533	44,332	12,230	-	-
Interest	435	-	-	-	-
Developer Advance	-	-	-	22,419	7,478
Other	6	93	-	-	-
TOTAL REVENUES	\$ 308,075	\$ 188,401	\$ 118,590	\$ 50,575	\$ 7,478
EXPENDITURES					
Wastewater Purchases/Garbage Fees	\$ 53,500	\$ 44,331	\$ 12,242	\$ -	\$ -
Repairs and Maintenance	4,248	3,040	-	-	-
Street Lights	2,012	2,919	2,015	-	-
Director Fees, including taxes	3,407	6,136	4,707	4,030	1,940
Legal Fees	17,199	33,346	20,731	19,643	4,488
Engineering Fees	2,626	8,084	4,244	2,928	-
Bookkeeping Fees	10,900	15,350	12,200	7,100	1,500
Financial Advisor Fees	1,046	1,530	1,560	1,560	-
Tax Appraisal/Collection Fees	638	571	194	3	-
Audit Fees	10,250	8,000	7,000	-	-
Insurance	1,195	1,562	1,405	1,476	400
Other	730	366	1,082	35	214
TOTAL EXPENDITURES	\$ 107,750	\$ 125,235	\$ 67,381	\$ 36,775	\$ 8,542
NET REVENUES (DEFICIT)	\$ 200,324	\$ 63,166	\$ 51,209	\$ 13,800	\$ (1,064)
Beginning Fund Balance	\$ 125,967	\$ 62,801	\$ 11,592	\$ (2,208)	\$ -
Plus / (Less): Fund Transfers	-	-	-	-	-
Ending Fund Balance	\$ 326,291	\$ 125,967	\$ 62,801	\$ 11,592	\$ (2,208)

(a) Unaudited as of May 31, 2017. Represents eight months of the District's current fiscal year.

(b) Audited.

(c) Unaudited.

DEBT SERVICE REQUIREMENTS – TABLE 3
Siena Municipal Utility District No. 2
\$2,400,000
Unlimited Tax Bonds, Series 2017
Dated Date: August 16, 2017
First Interest Payment Due: March 1, 2018

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Total	
	Principal Due (09/01)	Interest		Total	Principal (Due 9/01)	Interest		Principal and Interest	Debt Service Requirements	
		Due (03/01)	Due (09/01)			(Due 3/01)	(Due 9/01)			Total
2017	\$ -	\$ 45,725	\$ 45,725	\$ 91,450	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 91,450
2018	5,000	45,725	45,725	96,450	75,000	42,419	39,156	81,576	156,576	253,026
2019	5,000	45,675	45,675	96,350	75,000	38,406	38,406	76,813	151,813	248,163
2020	25,000	45,625	45,625	116,250	75,000	37,656	37,656	75,313	150,313	266,563
2021	50,000	45,375	45,375	140,750	75,000	36,906	36,906	73,813	148,813	289,563
2022	75,000	44,850	44,850	164,700	75,000	36,156	36,156	72,313	147,313	312,013
2023	75,000	43,988	43,988	162,975	75,000	35,031	35,031	70,063	145,063	308,038
2024	75,000	43,050	43,050	161,100	75,000	33,906	33,906	67,813	142,813	303,913
2025	75,000	42,038	42,038	159,075	75,000	32,781	32,781	65,563	140,563	299,638
2026	100,000	40,913	40,913	181,825	75,000	31,656	31,656	63,313	138,313	320,138
2027	100,000	39,413	39,413	178,825	100,000	30,531	30,531	61,063	161,063	339,888
2028	100,000	37,838	37,838	175,675	100,000	29,031	29,031	58,063	158,063	333,738
2029	100,000	36,188	36,188	172,375	100,000	27,469	27,469	54,938	154,938	327,313
2030	100,000	34,488	34,488	168,975	100,000	25,844	25,844	51,688	151,688	320,663
2031	125,000	32,738	32,738	190,475	100,000	24,156	24,156	48,313	148,313	338,788
2032	150,000	30,488	30,488	210,975	100,000	22,469	22,469	44,938	144,938	355,913
2033	150,000	27,750	27,750	205,500	100,000	20,719	20,719	41,438	141,438	346,938
2034	150,000	25,013	25,013	200,025	100,000	18,969	18,969	37,938	137,938	337,963
2035	175,000	22,275	22,275	219,550	100,000	17,219	17,219	34,438	134,438	353,988
2036	175,000	18,950	18,950	212,900	100,000	15,406	15,406	30,813	130,813	343,713
2037	175,000	15,625	15,625	206,250	100,000	13,594	13,594	27,188	127,188	333,438
2038	200,000	12,300	12,300	224,600	100,000	11,719	11,719	23,438	123,438	348,038
2039	200,000	8,300	8,300	216,600	100,000	9,844	9,844	19,688	119,688	336,288
2040	215,000	4,300	4,300	223,600	100,000	7,969	7,969	15,938	115,938	339,538
2041	-	-	-	-	325,000	6,094	6,094	12,188	337,188	337,188
	\$ 2,600,000	\$ 788,625	\$ 788,625	\$ 4,177,250	\$ 2,400,000	\$ 605,951	\$ 602,688	\$ 1,208,638	\$ 3,608,638	\$ 7,785,888

**FINANCIAL STATEMENT
(Unaudited)**

Assessed Value – Table 4

2016 Certified Assessed Valuation	\$ 28,108,870 ^(a)
2017 Preliminary Assessed Valuation	\$ 54,519,174 ^(b)
Estimated Assessed Valuation as of June 1, 2017	\$ 61,850,000 ^(c)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 5,000,000 ^(d)
Ratio of Gross Debt to 2016 Certified Assessed Valuation	17.79%
Ratio of Gross Debt to 2017 Preliminary Assessed Valuation	9.17%
Ratio of Gross Debt to Estimated Assessed Valuation as of June 1, 2017	8.08%
2016 Tax Rate	
Debt Service	\$ 0.3130
Maintenance	0.6370
Total 2016 Tax Rate	<u>\$ 0.9500</u> ^(e)
Debt Service Fund Balance (as of July 19, 2017)	\$ 202,194 ^(f)

Area of District: 333.23 acres
Estimated Population as of June 1, 2017: 732 ^(g)

- (a) The certified assessed valuation as of January 1, 2016, as provided by WCAD. See "TAXING PROCEDURES."
(b) The preliminary assessed valuation as of January 1, 2017, as provided by WCAD, is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by WCAD. See "TAXING PROCEDURES."
(c) The estimated assessed valuation as of June 1, 2017, as provided by WCAD is included solely for purposes of illustration.
(d) Includes the Bonds.
(e) The District's Board at its meeting in September 2016 levied a total tax rate of \$0.95. See "TAXING PROCEDURES."
(f) Unaudited as of July 19, 2017. Does not include approximately twenty-four months of capitalized interest (\$177,148) to be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
(g) Based upon 3.5 residents per completed and occupied single family home.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
11/6/2012	Water, Wastewater and Drainage	\$ 100,000,000	\$ 5,000,000 ^(a)	\$ 95,000,000
11/6/2012	Water, Wastewater and Drainage Refunding ^(b)	150,000,000	-	150,000,000
11/6/2012	Parks and Recreation	2,200,000	-	2,200,000
11/6/2012	Parks and Recreation Refunding ^(b)	3,300,000	-	3,300,000
Total		<u>\$ 255,500,000</u>	<u>\$ 5,000,000</u>	<u>\$ 250,500,000</u>

- (a) Includes the Bonds.
(b) The proposition approved by the voters authorized the District to issue refunding bonds in an amount not to exceed one and one-half times the par amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued, which equals \$150,000,000 in water, wastewater and drainage refunding bonds and \$3,300,000 in park and recreational facilities refunding bonds.

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Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
03/16/16	Water, Wastewater and Drainage	2016	\$ 2,600,000	\$ 2,600,000
08/16/17	Water, Wastewater and Drainage	2017	\$ 2,400,000	\$ 2,400,000 ^(a)
Subtotal			\$ 5,000,000	\$ 5,000,000

(a) The Bonds.

Cash and Investment Balances - Table 7^(a)

General Fund	\$ 313,630
Debt Service Fund	202,194 ^(b)
Capital Projects Fund	2

(a) Unaudited as of July 19, 2017.

(b) Does not include approximately twenty-four months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. 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 including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation ("FDIC") or by explicit full faith and credit of the United States; (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) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) 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; (9) 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; (10) 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; (11) 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; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA", "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. 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 (11) through (13) 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 July 19, 2017, is invested in TexPool. This investment portfolio is generally representative of the District's investment practices. GASB Statement No.3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of July 19, 2017	
Cash	\$ 101,168
TexPool	414,658
Total Investments	\$ 515,826

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 Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures.

Taxing Body	Total Tax Supported Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Williamson County	\$ 875,944,942	6/30/2017	0.020%	\$ 175,189
Hutto Independent School District	197,653,301	6/30/2017	0.420%	830,144
Williamson County ESD No. 3	(a)	6/30/2017	0.000%	-
Williamson Co. FM/RD	(a)	6/30/2017	0.000%	-
East Williamson County Higher Education Center	(a)	6/30/2017	0.000%	-
Upper Brushy Creek WCID No. 1A	(a)	6/30/2017	0.000%	-
TOTAL ESTIMATED OVERLAPPING NET DEBT				\$ 1,005,333
The District ^(b)	\$ 5,000,000	8/16/2017	100.00%	\$ 5,000,000
TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT				\$ 6,005,333
Ratio of Direct and Estimated Overlapping Debt to 2016 Certified Assessed Valuation				21.36%
Ratio of Direct and Estimated Overlapping Debt to 2017 Preliminary Assessed Valuation				11.02%
Ratio of Direct and Estimated Overlapping Debt to Estimated Assessed Valuation as of June 1, 2017				9.71%

(a) Taxing jurisdiction with no outstanding debt.

(b) Includes the Bonds.

Overlapping Taxes for 2016

Overlapping Entity	2016 Tax Rate Per	
	\$100 Assessed Valuation Williamson County	Average Tax Bill ^(a) Williamson County
Williamson County	\$0.436529	\$ 1,178
Hutto Independent School District	1.665500	4,494
Williamson County ESD No. 3	0.100000	270
Williamson Co. FM/RD	0.040000	108
East Williamson County Higher Education Center	0.045652	123
Upper Brushy Creek WCID No. 1A	0.019823	53
The District	0.950000	2,564
Total	<u>\$3.257504</u>	<u>\$ 8,791</u>

(a) Based upon the 2016 average single-family home value of \$269,854 as provided by WCAD.

TAX DATA

Classification of Assessed Valuation - Table 9

Type Property	2016 ^(a)		2015 ^(a)		2014 ^(a)	
	Amount	%	Amount	%	Amount	%
Single Family Residential	\$ 15,288,029	54.36%	\$ -	0.00%	\$ -	0.00%
Vacant Platted Lots/Tracts	300	0.00%	23,613	0.30%	21,500	0.80%
Acreage, Land Only	6,410,915	22.79%	6,293,649	79.74%	7,627,209	284.21%
Farm and Ranch Improvements	-	0.00%	500	0.01%	500	0.02%
Tangible Personal Business	51,827	0.18%	75,473	0.96%	-	0.00%
Real Inventory	10,432,128	37.09%	5,574,496	70.63%	-	0.00%
Exempt Property	3,613	0.01%	1,500	0.02%	-	0.00%
Adjustments & Exemptions	<u>(4,061,172)</u>	<u>-14.44%</u>	<u>(4,076,989)</u>	<u>-51.66%</u>	<u>(4,965,586)</u>	<u>-185.03%</u>
Total	\$ 28,125,640	100.00%	\$ 7,892,242	100.00%	\$ 2,683,623	100.00%

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statement.

Tax Collections - Table 10

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District's Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Year	Assessed Valuation ^(a)	Tax Rate	Tax Levy	Current		Total		Year Ending
				Amount	%	Amount	%	
2013	\$ 1,463,769	\$ 0.9500	\$ 13,906	\$ 13,906	100.00%	\$ 13,906	100.00%	9/30/2014 ^(b)
2014	2,683,623	0.9500	25,494	25,494	100.00%	25,494	100.00%	9/30/2015 ^(b)
2015	7,892,242	0.9500	74,976	74,976	100.00%	74,976	100.00%	9/30/2016 ^(b)
2016	28,108,870	0.9500	267,081	267,081	100.00%	267,081	100.00%	9/30/2017 ^(c)

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statement.

(b) Audited.

(c) Unaudited. Reflects tax collections as of May 31, 2017. Taxes were due with no penalty by January 31, 2017.

District Tax Rates - Table 11

	Tax Rates per \$100 Assessed Valuation			
	2016	2015	2014	2013
Debt Service	\$ 0.3130	\$ -	\$ -	\$ 0.3130
Maintenance	0.6370	0.9500	0.9500	0.6370
Total	\$ 0.9500	\$ 0.9500	\$ 0.9500	\$ 0.9500

Tax Rate Limitation

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

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on November 6, 2012, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2016 maintenance and operation tax of \$0.6370/\$100 assessed valuation. See "THE DISTRICT – General."

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by WCAD based on the 2016, 2015 and 2014 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Name	Type of Property	2016 ^(a)	2015 ^(a)	2014 ^(a)
SEDC Devco Inc. ^(c)	Land and Improvements	\$ 2,823,087	\$ 2,346,674	\$ 1,885,332
Highland Homes - Austin LTD ^(d)	Land and Improvements	1,753,035	938,529	(b)
The Brohn Group LLC ^(d)	Land and Improvements	1,578,448	1,171,010	(b)
Century Land Holdings II LLC ^(d)	Land and Improvements	1,238,588	333,000	(b)
Century Land Holdings ^(d)	Land and Improvements	516,325	1,047,217	(b)
Individual Homeowner	Land and Improvements	357,254	(b)	(b)
Individual Homeowner	Land and Improvements	347,215	119,990	(b)
Individual Homeowner	Land and Improvements	345,330	(b)	(b)
Individual Homeowner	Land and Improvements	334,441	(b)	(b)
Individual Homeowner	Land and Improvements	325,363	(b)	(b)
Individual Homeowner	Land and Improvements	(b)	203,906	(b)
Individual Homeowner	Land and Improvements	(b)	202,708	(b)
Individual Homeowner	Land and Improvements	(b)	175,817	(b)
Easy Kyle Partners LP ^(c)	Land and Improvements	(b)	741,105	741,105
Double J Investments LP ^(c)	Land and Improvements	(b)	(b)	23,406
SEDC Devco Inc et al ^(c)	Land and Improvements	(b)	(b)	21,500
Siena Kyle Commercial LP ^(c)	Land and Improvements	(b)	(b)	12,280
Total		<u>\$ 9,619,086</u>	<u>\$ 7,279,956</u>	<u>\$ 2,683,623</u>
Percent of Assessed Valuation		34.22%	92.24%	100.00%

(Footnotes appear on the following page)

- (a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statement.
- (b) Not a principal taxpayer in respective year.
- (c) An entity related to the Developer.
- (d) The designated taxpayers are concentrated in the homebuilding industry. See "THE DEVELOPER – Homebuilders within the District" and "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments – Dependence Upon the Developer, Lot Owners and Homebuilders" and "— Housing Market Volatility."

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2016 Certified assessed valuation, 2017 Preliminary assessed valuation and estimated assessed valuation as of June 1, 2017 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 "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments - *Impact on District Tax Rates.*"

Average Requirement on the Bonds (2018 through 2041).....	\$320,602
\$1.21 Tax Rate on 2016 Certified Assessed Valuation of \$28,108,870 @ 95% collections produces	\$323,111
\$0.62 Tax Rate on 2017 Preliminary Assessed Valuation of \$54,519,174 @ 95% collections produces	\$321,118
\$0.55 Tax Rate on Estimated Assessed Valuation as of June 1, 2017 of \$61,850,000 @ 95% collections produces	\$323,166
Maximum Requirement on the Bonds (2032)	\$355,913
\$1.34 Tax Rate on 2016 Certified Assessed Valuation of \$28,108,870 @ 95% collections produces	\$357,826
\$0.69 Tax Rate on 2017 Preliminary Assessed Valuation of \$54,519,174 @ 95% collections produces	\$357,373
\$0.61 Tax Rate on Estimated Assessed Valuation as of June 1, 2017 of \$61,850,000 @ 95% collections produces	\$358,421

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/17	\$91,450 ^(a)
Audited Debt Service Fund Balance as of 9/30/16.....	159,030 ^(b)
Capitalized Interest included in Bond proceeds	177,148 ^(c)
2016 Tax Levy @ 95% collections produces	<u>83,582 ^(d)</u>
Total Available for Debt Service.....	<u>\$419,760</u>
Projected Debt Service Fund Balance as of September 30, 2017.....	<u>\$328,310</u>

- (a) Interest requirements on the Bonds begin March 1, 2018.
- (b) Audited. Represents debt service fund balance after all 2016 debt service requirements have been paid.
- (c) Represents approximately two years of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.
- (d) The District levied a 2016 debt service tax rate of \$0.3130.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County Wide Appraisal District

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

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

Property Subject to Taxation by the District

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

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

Tax Abatement: Williamson County and the District may enter into tax abatement agreements with owners of real property. 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. The District has not taken action to tax goods-in-transit.

Valuation of Property for Taxation

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

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in

which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights In The Event Of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2016". 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 "RISK FACTORS - General - Tax Collections and Foreclosure Remedies."

Effect of FIRREA on Tax Collections

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

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

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

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of 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 governmental immunity, 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 Initial 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, 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) the District's federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income 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 the covenants and 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 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. Bond Counsel's opinion represents its legal judgement based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. 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 is 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.

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.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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.

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 certain specified events to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

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, if such audited financial statements as provided in Appendix A are then available. The District will update and provide this information within twelve 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 within twelve months after any such fiscal year end, the District will file unaudited financial statements within such twelve-month period and file audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix A or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

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

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

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

Availability of Information from the 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.

This continuing disclosure agreement may be amended by the District 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 (1) 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 (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond 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.

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 to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

OFFICIAL STATEMENT

Preparation

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

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

Consultants

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

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

Auditor: The District's financial statements for fiscal year ending September 30, 2016 were audited by McCall, Gibson, Swedlund, Barfoot P.L.L.C., Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2016 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

Updating the Official Statement during Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide and Official Statement to potential customers who request the same pursuant to 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 in the Notice of Sale under the heading "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 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. Except as set forth in "CONTINUING DISCLOSURE OF INFORMATION" herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the "end of the underwriting period" which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the "end of the underwriting period" is the responsibility of the Initial Purchaser.

Annual Audits

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

This Official Statement was approved by the Board of Directors of Siena Municipal Utility District No. 2, as of the date shown on the first page hereof.

/s/ Jeff O’Jibway
President, Board of Directors
Siena Municipal Utility District No. 2

/s/ Adam Kruger
Secretary, Board of Directors
Siena Municipal Utility District No. 2

PHOTOGRAPHS

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









APPENDIX A
Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Siena Municipal Utility District No. 2 for the fiscal year ended September 30, 2016. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**SIENA MUNICIPAL UTILITY
DISTRICT NO. 2**

**Financial Statements
and Supplementary Information
as of and for the Year Ended
September 30, 2016 and
Independent Auditor's Report**

SIENA MUNICIPAL UTILITY DISTRICT NO. 2

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF WILLIAMSON

I, _____ of the
(Name of Duly Authorized District Representative)

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
(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 **18th day of January, 2017**, its annual audit report for the fiscal year ended **September 30, 2016** and that copies of the annual audit report have been filed in the District's office, located at:

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

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

Date: _____, _____ By: _____
(Signature of 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

INDEPENDENT AUDITOR'S REPORT

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708
E-Mail: mgsb@mgsbpllc.com

9600 Great Hills Trail
Suite 150W
Austin, Texas 78759
(512) 610-2209
www.mgsbpllc.com

Board of Directors
Siena Municipal Utility District No. 2
Williamson County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Siena Municipal Utility District No. 2 (the "District"), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* and the Other Supplementary Information are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Texas Supplementary Information and the Other Supplementary Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 18, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

SIENA MUNICIPAL UTILITY DISTRICT NO. 2

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2016

In accordance with Governmental Accounting Standards Board Statement No. 34 ("GASB 34"), the management of Siena Municipal Utility District No. 2 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2016. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the fund balance for the General Fund was \$125,967, an increase of \$63,166 from a balance of \$62,801 at the end of the previous fiscal year. General Fund expenditures increased from \$67,381 in the previous fiscal year to \$125,235 in the current fiscal year, and revenues increased from \$118,590 in the previous fiscal year to \$188,401 in the current fiscal year.
- *Debt Service Fund:* At the end of the current fiscal year, the fund balance for the Debt Service Fund was \$159,030. During the current fiscal year, the District issued \$2,600,000 of Series 2016 Unlimited Tax Bonds, of which \$200,566 was invested in the Debt Service Fund to fund future interest and principal payments on the bonds.
- *Capital Projects Fund:* During the current fiscal year, the District issued \$2,600,000 of Series 2016 Unlimited Tax Bonds, the proceeds of which were used to reimburse the developer for wastewater facilities, engineering fees, developer interest, plus certain organizational and creation costs and to pay for various bond issue costs.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$437,234 in the current fiscal year. Net position decreased from \$28,607 at September 30, 2015 to a deficit balance of \$408,627 at September 30, 2016.

OVERVIEW OF THE DISTRICT

The District was duly created by order of the Texas Commission on Environmental Quality (the "Commission") dated October 19, 2007 as a conservation and reclamation district created under and essential to accomplish the purposes of Section 59, Article XVI of the Texas Constitution.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED SEPTEMBER 30, 2016

USING THIS ANNUAL REPORT

This annual report consists of five parts:

1. *Management's Discussion and Analysis* (this section)
2. *Basic Financial Statements*
3. *Required Supplementary Information*
4. *Texas Supplementary Information* (required by the Texas Commission on Environmental Quality (the TSI section))
5. *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 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 Statement of Revenues, Expenditures and Changes in Fund Balances* includes a column (titled "Governmental Funds Total") that derives the change in fund balances resulting from current year revenues, expenditures, and other financing sources or uses. These amounts are prepared using the modified accrual basis of accounting. The adjustments column converts those activities to full accrual, a basis that more closely represents the income statement of a private-sector business.

The *Notes to the 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 Statement of Revenues, Expenditures, and Changes in Fund Balances*.

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

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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)
	2016	2015	
Current and Other Assets	\$ 299,020	\$ 72,291	\$ 226,729
Capital and Non-Current Assets	1,947,896	-	1,947,896
Total Assets	<u>2,246,916</u>	<u>72,291</u>	<u>2,174,625</u>
Current Liabilities	21,349	9,490	11,859
Long-term Liabilities	2,634,194	34,194	2,600,000
Total Liabilities	<u>2,655,543</u>	<u>43,684</u>	<u>2,611,859</u>
Net Investment in Capital Assets	(652,104)	-	(652,104)
Restricted for Debt Service	151,704	-	151,704
Unrestricted	<u>91,773</u>	<u>28,607</u>	<u>63,166</u>
Total Net Position	<u>\$ (408,627)</u>	<u>\$ 28,607</u>	<u>\$ (437,234)</u>

The District's net position decreased by \$437,234 during the 2016 fiscal year to a deficit balance of \$408,627 at September 30, 2016 from a positive balance of \$28,607 at September 30, 2015. The District's unrestricted net position, which can be used to finance day to day operations, was \$91,773 at September 30, 2016.

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

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

Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2016	2015	
Property taxes	\$ 74,976	\$ 44,860	\$ 30,116
Drainage fees	69,000	61,500	7,500
Wastewater revenue	31,743	10,857	20,886
Garbage service revenue	12,589	1,373	11,216
Other	643	-	643
Total Revenues	188,951	118,590	70,361
Wastewater purchases	31,743	10,857	20,886
Repairs and maintenance	3,040	-	3,040
Garbage service fees	12,588	1,386	11,202
Street lights	2,919	2,015	904
Professional fees	66,310	45,735	20,575
Other operating expenses	8,635	7,388	1,247
Debt service	348,383	-	348,383
District creation costs	129,573	-	129,573
Depreciation	22,994	-	22,994
Total Expenses	626,185	67,381	558,804
Change in Net Position	(437,234)	51,209	(488,443)
Beginning Net Position	28,607	(22,602)	51,209
Ending Net Position	\$ (408,627)	\$ 28,607	\$ (437,234)

Revenues were \$188,951 for the fiscal year ended September 30, 2016, while expenses were \$626,185. Net position decreased by \$437,234.

Property tax revenues in the current fiscal year totaled \$74,976. 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 2015 tax year (September 30, 2016 fiscal year) were based upon a current assessed value of \$7,892,242 and a tax rate of \$0.95 per \$100 of assessed valuation. Property taxes levied for the 2014 tax year (September 30, 2015 fiscal year) were based upon a current assessed value of \$2,683,623 and a tax rate of \$0.95 per \$100 of assessed valuation.

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (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, if any. The District's primary revenue sources (making up over 76% of total revenues) are property taxes and drainage fees.

ANALYSIS OF GOVERNMENTAL FUND

Governmental Fund by Year

	2016	2015	2014
Cash and cash equivalents	\$ 284,250	\$ 63,736	\$ 15,413
Receivables	15,471	7,470	-
Prepaid expenditures	-	1,085	500
Total Assets	<u>\$ 299,721</u>	<u>\$ 72,291</u>	<u>\$ 15,913</u>
Accounts payable	\$ 14,023	\$ 9,490	\$ 4,321
Other	701	-	-
Total Liabilities	<u>14,724</u>	<u>9,490</u>	<u>4,321</u>
Nonspendable	-	1,085	500
Restricted	159,030	-	-
Unassigned	125,967	61,716	11,092
Total Fund Balance	<u>284,997</u>	<u>62,801</u>	<u>11,592</u>
Total Liabilities and Fund Balance	<u>\$ 299,721</u>	<u>\$ 72,291</u>	<u>\$ 15,913</u>

For the fiscal year ended September 30, 2016, the District's governmental funds reflect a combined fund balance of \$284,997. The General Fund and Debt Service Fund include fund balance increases of \$63,166 and \$159,030, respectively.

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

CAPITAL ASSETS

The District's governmental activities have invested \$1,947,896 in water, wastewater and drainage facilities. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	<u>9/30/2016</u>	<u>9/30/2015</u>
Water/wastewater/drainage facilities	\$ 1,970,890	\$ -
Less: Accumulated depreciation	(22,994)	-
Total Net Capital Assets	<u>\$ 1,947,896</u>	<u>\$ -</u>

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

LONG-TERM DEBT ACTIVITY

Voters within the District have approved authorization to issue \$100,000,000 of unlimited tax bonds to fund the cost of proposed facilities and related non-construction costs based upon the District engineer's reports. Additionally, \$2,200,000 of bonds to fund costs for parks and recreational facilities were approved by voters of the District. As of September 30, 2016, \$2,600,000 of unlimited tax bonds have been issued, all of which remains outstanding at September 30, 2016. The ratio of the District's long-term debt to the 2016 total taxable assessed valuation (\$28,125,640) is 9.2%. The District's estimated population, as provided by the District as of January 1, 2016, is 294. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

At September 30, 2016, the District owed \$34,194 to the developer for advances used to fund operating activities.

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs. On September 10, 2015, the Board of Directors approved a budget including revenues of \$199,370 as compared to expenditures of \$125,421 for the 2016 fiscal year. When comparing actual figures to budgeted amounts, the District had a negative variance of \$10,783 for the 2016 fiscal year primarily due to decreased drainage fee collections. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value and net taxable value for the 2016 tax year (fiscal year 2017) is approximately \$28 million. The fiscal year 2017 tax rate is \$0.95 on each \$100 of taxable value. Approximately 67% of the property tax will fund general operating expenses and approximately 33% of the property tax will be set aside for debt service.

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS (continued) -

The adopted budget for fiscal year 2017 projects an operating fund balance increase of \$144,211. Compared to the fiscal year 2016 budget, revenues are expected to increase by approximately \$120,000 and expenditures are expected to increase by approximately \$50,000.

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 Ave., Suite 1300, Austin, TX 78701.

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FINANCIAL STATEMENTS

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Net Position
<u>ASSETS</u>						
Cash and cash equivalents:						
Cash	\$ 92,463	\$ -	\$ -	\$ 92,463	\$ -	\$ 92,463
Cash equivalents	32,056	159,030	701	191,787	-	191,787
Receivables:						
Service accounts, net of reserve for doubtful accounts of \$-0-	11,020	-	-	11,020	-	11,020
Interfund	701	-	-	701	(701)	-
Intergovernmental	3,750	-	-	3,750	-	3,750
Capital assets, net of accumulated depreciation - Water/wastewater/drainage system	-	-	-	-	1,947,896	1,947,896
TOTAL ASSETS	\$ 139,990	\$ 159,030	\$ 701	\$ 299,721	1,947,195	2,246,916
<u>LIABILITIES</u>						
Accounts payable	\$ 14,023	\$ -	\$ -	\$ 14,023	-	14,023
Accrued bond interest payable	-	-	-	-	7,326	7,326
Interfund payables	-	-	701	701	(701)	-
Due to developer	-	-	-	-	34,194	34,194
Bonds payable - Due after one year	-	-	-	-	2,600,000	2,600,000
TOTAL LIABILITIES	14,023	-	701	14,724	2,640,819	2,655,543
<u>FUND BALANCE / NET POSITION</u>						
Fund balance:						
Restricted for:						
Debt service	-	159,030	-	159,030	(159,030)	-
Unassigned	125,967	-	-	125,967	(125,967)	-
TOTAL FUND BALANCE	125,967	159,030	-	284,997	(284,997)	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 139,990	\$ 159,030	\$ 701	\$ 299,721		
Net position -						
Net investment in capital assets					(652,104)	(652,104)
Restricted for debt service					151,704	151,704
Unrestricted					91,773	91,773
TOTAL NET POSITION					\$ (408,627)	\$ (408,627)

The accompanying notes are an integral part of this statement.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2016

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Activities
REVENUES:						
Property taxes, including penalties	\$ 74,976	\$ -	\$ -	\$ 74,976	\$ -	\$ 74,976
Drainage fees	69,000	-	-	69,000	-	69,000
Wastewater revenue	31,743	-	-	31,743	-	31,743
Garbage service revenue	12,589	-	-	12,589	-	12,589
Other	93	379	171	643	-	643
TOTAL REVENUES	188,401	379	171	188,951	-	188,951
EXPENDITURES / EXPENSES:						
Current:						
Wastewater purchases	31,743	-	-	31,743	-	31,743
Repairs/maintenance	3,040	-	-	3,040	-	3,040
Legal fees	33,346	-	-	33,346	-	33,346
Garbage service fees	12,588	-	-	12,588	-	12,588
Street lights	2,919	-	-	2,919	-	2,919
Bookkeeping fees	15,350	-	-	15,350	-	15,350
Engineering fees	8,084	-	-	8,084	-	8,084
Audit fees	8,000	-	-	8,000	-	8,000
Director fees, including payroll taxes	6,136	-	-	6,136	-	6,136
Financial advisor fees	1,530	-	-	1,530	-	1,530
Insurance	1,562	-	-	1,562	-	1,562
Tax appraisal/collection fees	571	-	-	571	-	571
Other	366	-	-	366	-	366
Debt service:						
Interest	-	41,915	-	41,915	7,326	49,241
Bond issuance costs	-	-	299,142	299,142	-	299,142
District creation costs	-	-	129,573	129,573	-	129,573
Capital outlay	-	-	1,970,890	1,970,890	(1,970,890)	-
Depreciation	-	-	-	-	22,994	22,994
TOTAL EXPENDITURES / EXPENSES	125,235	41,915	2,399,605	2,566,755	(1,940,570)	626,185
Excess (deficiency) of revenues over (under) expenditures/expenses	63,166	(41,536)	(2,399,434)	(2,377,804)	1,940,570	(437,234)
OTHER FINANCING SOURCES -						
Proceeds from sale of bonds	-	200,566	2,399,434	2,600,000	(2,600,000)	-
TOTAL OTHER FINANCING SOURCES	-	200,566	2,399,434	2,600,000	(2,600,000)	-
NET CHANGE IN FUND BALANCE	63,166	159,030	-	222,196	(222,196)	-
CHANGE IN NET POSITION					(437,234)	(437,234)
FUND BALANCE / NET POSITION:						
Beginning of the year	62,801	-	-	62,801	(34,194)	28,607
End of the year	\$ 125,967	\$ 159,030	\$ -	\$ 284,997	\$ (693,624)	\$ (408,627)

The accompanying notes are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Siena Municipal Utility District No. 2 (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 duly created by order of the Texas Commission on Environmental Quality (the “Commission”) dated October 19, 2007 as a conservation and reclamation district created under and essentially to accomplish the purposes of Section 59, Article XVI of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District’s elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the “Board”) which has been elected by District residents or appointed by the Board. The District is not included in any other governmental “reporting entity” as defined by GASB Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District’s reporting entity.

Basis of Presentation - Government-Wide and Fund Financial Statements - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information the 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 General Fund budget with actual results.

- **Government-Wide Financial 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.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

- **Fund Financial Statements:** Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures of either fund category) for the determination of major funds.

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

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

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

Basis of Accounting

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

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

• **Governmental Funds (continued) -**

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

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

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

Property tax revenues are recognized when they become available. In this case, available means when due, or past due and receivable within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Tax collections expected to be received subsequent to the 60-day availability period are reported as deferred inflows of resources. The District has made no such accrual for the year ended September 30, 2016. All other revenues of the District are recorded on the accrual basis in all funds.

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

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Budgets and Budgetary Accounting – An unappropriated budget was initially adopted on September 10, 2015, for the General Fund on a basis consistent with GAAP. The District’s Board utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end. The budget was not amended during the fiscal year.

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 as of 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.

Cash and cash equivalents - Cash and cash equivalents includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of obligations in the State Treasurer’s Investment Pool, are recorded at amortized cost.

Accounts Receivable - The District provides for uncollectible service accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management’s evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District believes all accounts were collectible at September 30, 2016.

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

Capital Assets - Capital assets 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 acquisition value at the time received.

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

<u>Asset</u>	<u>Years</u>
Water/wastewater/drainage system	50

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

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

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

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

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

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

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

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

Pensions - The District has no employees. The Internal Revenue Service has determined that the District's directors are considered to be "employees" for federal payroll tax purposes only. A separate pension plan has not been established for the directors.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

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

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

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

- Market approach - uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach - uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach - uses valuation techniques to convert future amounts to present amounts based on current market expectations

Implementation of GASB Statement No. 72 did not have a significant impact on the District's financial statements for the year ended September 30, 2016.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS

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

Fund Balance - Governmental Funds		\$ 284,997
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:		
Capital assets	\$ 1,970,890	
Less: Accumulated depreciation	<u>(22,994)</u>	1,947,896
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable	(2,600,000)	
Developer advances	(34,194)	
Accrued interest	<u>(7,326)</u>	<u>(2,641,520)</u>
Net Position - Governmental Activities		<u><u>\$ (408,627)</u></u>

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

Net Change in Fund Balance - Governmental Funds		\$ 222,196
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report:		
Bond proceeds in year received	\$ (2,600,000)	
Interest expenditures in year paid	(7,326)	
Capital outlay in year paid	<u>1,970,890</u>	(636,436)
Governmental funds do not report:		
Depreciation		<u>(22,994)</u>
Change in Net Position - Governmental Activities		<u><u>\$ (437,234)</u></u>

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

3. CASH AND CASH EQUIVALENT INVESTMENTS

The investment policies of the District are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act") and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy, which complies with the Public Funds Investment Act, include: depositories must be Federal Deposit Insurance Corporation ("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, 2016, the carrying amount of the District's deposits and the bank balance was \$92,463. The bank balance was covered by FDIC insurance.

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; and
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share; and
- 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 AAAm by a nationally recognized rating agency.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

3. CASH AND CASH EQUIVALENT INVESTMENTS (continued) -

At September 30, 2016, the District held the following investments:

Cash Equivalents and Investments	Fair Value at 9/30/2016	Weighted Average Maturity (Days)	Investment Rating	
			Rating	Rating Agency
TexPool	\$ 191,787	1	AAAm	Standard & Poors

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool ("TexPool"). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at amortized cost in accordance with GASB Statement No. 31. TexPool also has an advisory board to advise on TexPool's investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

Concentration of credit risk - In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2016, the District did not own any investments in individual securities.

Custodial credit risk - 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, 2016, the District's bank deposits were fully covered by FDIC insurance.

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 Williamson Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector bills and collects the District's property taxes. The Board set current tax rates on September 10, 2015.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

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 2015 tax roll. The tax rate, based on the total taxable assessed valuation of \$7,892,242, was \$0.95 on each \$100 valuation and was fully allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 6, 2012.

Property taxes receivable were fully collected at September 30, 2016.

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 at September 30, 2016, is as follows:

	Interfund	
	Receivables	Payables
General Fund-		
Capital Projects Fund	\$ 701	\$ -
Capital Projects Fund-		
General Fund	-	701
	<u>\$ 701</u>	<u>\$ 701</u>

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 9/30/2015	Additions	Deletions	Balance 9/30/2016
Capital assets being depreciated-				
Water/wastewater/drainage system	\$ -	\$ 1,970,890	\$ -	\$ 1,970,890
Total capital assets being depreciated	-	1,970,890	-	1,970,890
Less accumulated depreciation for-				
Water/wastewater/drainage system	-	(22,994)	-	(22,994)
Total accumulated depreciation	-	(22,994)	-	(22,994)
Total capital assets being depreciated, net of accumulated depreciation	-	1,947,896	-	1,947,896
Total capital assets, net	\$ -	\$ 1,947,896	\$ -	\$ 1,947,896

7. BONDED DEBT

The following is a summary of the District's bond transactions for the year ended September 30, 2016:

	Unlimited Tax and Revenue Bonds
Bonds payable at September 30, 2015	\$ -
Bonds issued	2,600,000
Bonds retired	-
Bonds payable at September 30, 2016	\$ 2,600,000

Bonds payable at September 30, 2016 were comprised of the following individual issue:

Unlimited Tax Bonds -

\$2,600,000 - 2016 Unlimited Tax Bonds payable serially through the year 2040 at interest rates which range from 2.0% to 4.0%. Bonds maturing on or after September 1, 2024 are callable prior to maturity beginning on September 1, 2023. Bonds maturing September 1, 2034, September 1, 2037 and September 1, 2040 are term bonds and are subject to mandatory sinking fund redemption.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

7. BONDED DEBT (continued) -

On March 16, 2016, the District issued \$2,600,000 Unlimited Tax Bonds, Series 2016, with interest rates ranging from 2.0% to 4.0%. The net proceeds of \$2,301,560 (after payment of \$298,440 in underwriter fees, insurance, and other bond related costs) were deposited with the District's investment accounts to finance construction costs, and to pay for accrued bond interest and subsequent bond issue costs.

The annual requirements to amortize all bonded debt at September 30, 2016, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2017	\$ -	\$ 91,450	\$ 91,450
2018	5,000	91,450	96,450
2019	5,000	91,350	96,350
2020	25,000	91,250	116,250
2021	50,000	90,750	140,750
2022-2026	400,000	429,675	829,675
2027-2031	525,000	361,325	886,325
2032-2036	800,000	248,950	1,048,950
2037-2040	790,000	81,050	871,050
	<u>\$ 2,600,000</u>	<u>\$ 1,577,250</u>	<u>\$ 4,177,250</u>

The total amount of unlimited tax bonds authorized but not issued is \$97,400,000 as of September 30, 2016.

\$159,030 is available in the Debt Service Fund to service the bonded debt as of September 30, 2016.

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

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

8. COMMITMENTS AND CONTINGENCIES

The developer of the land within the District has incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Commission, or from operations. On November 6, 2012, a bond election held within the District approved authorization to issue \$100,000,000 of bonds to fund costs of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District's engineer's report. Additionally, \$2,200,000 of bonds to fund costs for parks and recreational facilities were approved by voters of the District. As of September 30, 2016, the District has issued \$2,600,000 of unlimited tax bonds to reimburse the developer for water, wastewater and drainage improvements. As of September 30, 2016, the District has not issued any bonds to reimburse the developer for parks and recreational facilities. At September 30, 2016, the District owed the developer \$34,194 for advances used to fund operating activities.

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 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.

10. FUND BALANCES

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

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. The District had no such amounts.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2016

10. FUND BALANCES (continued) -

- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

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

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

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

**REQUIRED SUPPLEMENTARY
INFORMATION**

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Property taxes, including penalties	\$ 74,976	\$ 75,009	\$ (33)
Drainage fees	69,000	81,000	(12,000)
Wastewater revenue	31,743	28,365	3,378
Garbage service revenue	12,589	14,996	(2,407)
Other	93	-	93
TOTAL REVENUES	<u>188,401</u>	<u>199,370</u>	<u>(10,969)</u>
EXPENDITURES:			
Wastewater purchases	31,743	28,365	(3,378)
Repairs and maintenance	3,040	-	(3,040)
Legal fees	33,346	32,000	(1,346)
Garbage service fees	12,588	14,996	2,408
Street lights	2,919	6,000	3,081
Bookkeeping fees	15,350	16,150	800
Engineering fees	8,084	9,000	916
Audit fees	8,000	8,000	-
Director fees, including payroll taxes	6,136	6,520	384
Financial advisor fees	1,530	1,750	220
Insurance	1,562	1,500	(62)
Tax appraisal/collection fees	571	400	(171)
Other	366	740	374
TOTAL EXPENDITURES	<u>125,235</u>	<u>125,421</u>	<u>186</u>
Net change in fund balance	63,166	<u><u>\$ 73,949</u></u>	<u><u>\$ (10,783)</u></u>
FUND BALANCE:			
Beginning of the year	62,801		
End of the year	<u><u>\$ 125,967</u></u>		

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SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2016

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

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	(1)	(1)	(1)	(1)	(1)
WASTEWATER:	(1)	(1)	(1)	(1)	(1)
SURCHARGE:	(1)	(1)	(1)	(1)	(1)

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

Total charges per 10,000 gallons usage: Water (1) Wastewater (1)

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered			1.0	
< 3/4"			1.0	
1"			2.5	
1 1/2"			5.0	
2"			8.0	
3"			15.0	
4"			25.0	
6"			50.0	
8"			80.0	
10"			115.0	
Total Water	(1)	(1)		(1)
Total Wastewater	(1)	(1)	1.0	(1)

⁽¹⁾ Water and wastewater service provided to District customers by Jonah Water Special Utility District.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-1. SERVICES AND RATES (continued)
SEPTEMBER 30, 2016

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

Gallons pumped into system: (1)

Gallons billed to customers: (1)

Water Accountability Ratio

(Gallons billed / Gallons Pumped)

N/A

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

Does the District assess standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: _____

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

If yes, Date of the most recent Commission Order: _____

5. Location of District

County(ies) in which district is located: 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: City of Round Rock, Texas

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? _____

(1) Water and wastewater service provided to District customers by Jonah Water Special Utility District.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2016

Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	8,000
Legal	33,346
Engineering	8,084
Financial Advisor	1,530
Purchased Services For Resale:	
Bulk Water and Wastewater Purchases	31,743
Contracted Services:	
Bookkeeping	15,350
General Manager	-
Appraisal District/Tax Collector	571
Other Contracted Services	12,588
Utilities	2,919
Repairs and Maintenance	3,040
Chemicals	-
Administrative Expenditures:	
Directors' Fees	6,136
Office Supplies	-
Insurance	1,562
Other Administrative Expenditures	366
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	-
Bad Debt	-
Parks and Recreation	-
Other Expenditures	-
TOTAL EXPENDITURES	<u><u>\$ 125,235</u></u>

Number of persons employed by the District:

☐ Full-Time

☐ Part-Time

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2016

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund:					
TexPool	XXX001	Varies	N/A	\$ 6,968	\$ -
TexPool	XXX002	Varies	N/A	25,088	-
Total				32,056	-
Debt Service Fund-					
TexPool	XXX005	Varies	N/A	159,030	-
Total				159,030	-
Capital Projects Fund-					
TexPool	XXX004	Varies	N/A	701	-
Total				701	-
Total - All Funds				\$ 191,787	\$ -

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2016

	Maintenance Taxes	Debt Service Taxes	
Taxes Receivable, Beginning of Year	\$ -	\$ -	
2015 Original Tax Levy, less abatements	75,009	-	
Adjustments	(33)	-	
Total to be accounted for	74,976	-	
Tax collections:			
Current year	74,976	-	
Prior years	-	-	
Rollbacks	-	-	
Total collections	74,976	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Taxes Receivable, By Years			
Rollbacks	\$ -	\$ -	
2014 and before	-	-	
2015	-	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Property Valuations:	2015	2014	2013
Land and improvements	\$ 7,892,242 (a)	\$ 2,683,623 (a)	\$ 1,463,769 (a)
Total Property Valuations	\$ 7,892,242	\$ 2,683,623	\$ 1,463,769
Tax Rates per \$100 Valuation:			
Debt Service tax rates	\$ -	\$ -	\$ -
Maintenance tax rates	0.9500	\$ 0.9500	0.9500
Total Tax Rates per \$100 Valuation:	\$ 0.9500	\$ 0.9500	\$ 0.9500
Original Tax Levy	\$ 74,976	\$ 25,494	\$ 13,906
Percent of Taxes Collected to Taxes Levied **	100.0%	100.0%	100.0%
Maximum Tax Rate Approved by Voters:	\$ 1.00 on	11/6/2012	

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

(a) Valuations are provided by the appropriate Appraisal District. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed to the District's bond offering documents or the District's annual bond disclosure filings.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2016

Fiscal Year Ending	Unlimited Tax Bonds Series 2016			Total - All Requirements		
	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total
2017	\$ -	\$ 91,450	\$ 91,450	\$ -	\$ 91,450	\$ 91,450
2018	5,000	91,450	96,450	5,000	91,450	96,450
2019	5,000	91,350	96,350	5,000	91,350	96,350
2020	25,000	91,250	116,250	25,000	91,250	116,250
2021	50,000	90,750	140,750	50,000	90,750	140,750
2022	75,000	89,700	164,700	75,000	89,700	164,700
2023	75,000	87,975	162,975	75,000	87,975	162,975
2024	75,000	86,100	161,100	75,000	86,100	161,100
2025	75,000	84,075	159,075	75,000	84,075	159,075
2026	100,000	81,825	181,825	100,000	81,825	181,825
2027	100,000	78,825	178,825	100,000	78,825	178,825
2028	100,000	75,675	175,675	100,000	75,675	175,675
2029	100,000	72,375	172,375	100,000	72,375	172,375
2030	100,000	68,975	168,975	100,000	68,975	168,975
2031	125,000	65,475	190,475	125,000	65,475	190,475
2032	150,000	60,975	210,975	150,000	60,975	210,975
2033	150,000	55,500	205,500	150,000	55,500	205,500
2034	150,000	50,025	200,025	150,000	50,025	200,025
2035	175,000	44,550	219,550	175,000	44,550	219,550
2036	175,000	37,900	212,900	175,000	37,900	212,900
2037	175,000	31,250	206,250	175,000	31,250	206,250
2038	200,000	24,600	224,600	200,000	24,600	224,600
2039	200,000	16,600	216,600	200,000	16,600	216,600
2040	215,000	8,600	223,600	215,000	8,600	223,600
	<u>\$ 2,600,000</u>	<u>\$ 1,577,250</u>	<u>\$ 4,177,250</u>	<u>\$ 2,600,000</u>	<u>\$ 1,577,250</u>	<u>\$ 4,177,250</u>

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2016

	<u>Bond Issue</u>	
	<u>Series 2016</u>	<u>Total</u>
Interest Rate	2.00% - 4.00%	
Dates Interest Payable	3/1; 9/1	
Maturity Dates	9/1/2040	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ -	\$ -
Bonds Sold During the Current Fiscal Year	2,600,000	2,600,000
Retirements During the Current Fiscal Year:		
Principal	-	-
Refunded	-	-
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 2,600,000</u>	<u>\$ 2,600,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 41,915</u>	<u>\$ 41,915</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Recreational Facilities*</u>
Amount Authorized by Voters	\$ 100,000,000	\$ 2,200,000
Amount Issued	(2,600,000)	-
Remaining To Be Issued	<u>\$ 97,400,000</u>	<u>\$ 2,200,000</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, 2016:		<u>\$ 159,030</u>
Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt:		<u>\$ 174,052</u>

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS
SEPTEMBER 30, 2016

	Amounts					Percent of				
	2016	2015	2014	2013*	2012*	2016	2015	2014	2013*	2012*
GENERAL FUND REVENUES AND OTHER										
FINANCING SOURCES:										
Property taxes, including penalties	\$ 74,976	\$ 44,860	\$ 13,906	\$ -	\$ -	39.8%	37.8%	27.5%	-	-
Drainage fees	69,000	61,500	14,250	-	-	36.6%	51.9%	28.2%	-	-
Wastewater revenue	31,743	10,857	-	-	-	16.8%	9.2%	-	-	-
Garbage service revenue	12,589	1,373	-	-	-	6.7%	1.1%	-	-	-
Developer advances	-	-	22,419	7,478	1,002	-	-	44.3%	100.0%	100.0%
Other	93	-	-	-	-	0.1%	-	-	-	-
TOTAL GENERAL FUND REVENUES AND OTHER FINANCING SOURCES	188,401	118,590	50,575	7,478	1,002	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL FUND EXPENDITURES:										
Wastewater purchases	31,743	10,857	-	-	-	16.9%	9.2%	-	-	-
Repairs and maintenance	3,040	-	-	-	-	1.7%	-	-	-	-
Street lights	2,919	2,015	-	-	-	1.5%	1.7%	-	-	-
Garbage service fees	12,588	1,386	-	-	-	6.7%	1.2%	-	-	-
Director fees, including payroll taxes	6,136	4,707	4,030	1,940	1,132	3.3%	4.0%	8.0%	25.9%	113.0%
Legal fees	33,346	20,731	19,643	4,488	-	17.7%	17.5%	38.8%	60.0%	-
Engineering fees	8,084	4,244	2,928	-	-	4.3%	3.6%	5.8%	-	-
Audit fees	8,000	7,000	-	-	-	4.2%	5.9%	-	-	-
Bookkeeping fees	15,350	12,200	7,100	1,500	1,000	8.1%	10.3%	14.0%	20.1%	99.8%
Financial advisor fees	1,530	1,560	1,560	-	-	0.8%	1.3%	3.1%	-	-
Tax appraisal/collection fees	571	194	3	-	-	0.3%	0.1%	-	-	-
Insurance	1,562	1,405	1,476	400	-	0.8%	1.1%	2.9%	5.3%	-
Other	366	1,082	35	214	11	0.2%	0.9%	0.1%	2.9%	1.1%
TOTAL GENERAL FUND EXPENDITURES	125,235	67,381	36,775	8,542	2,143	66.5%	56.8%	72.7%	114.2%	213.9%
EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	\$ 63,166	\$ 51,209	\$ 13,800	\$ (1,064)	\$ (1,141)	33.5%	43.2%	27.3%	-14.2%	-113.9%
DEBT SERVICE FUND REVENUES AND OTHER FINANCING SOURCES:										
Interest	\$ 379	\$ -	\$ -	\$ -	\$ -	0.2%	-	-	-	-
Bond proceeds, net of discount	200,566	-	-	-	-	99.8%	-	-	-	-
TOTAL DEBT SERVICE FUND REVENUES AND OTHER FINANCING SOURCES	\$ 200,945	\$ -	\$ -	\$ -	\$ -	100.0%	-	-	-	-
DEBT SERVICE FUND EXPENDITURES -										
Bond interest	41,915	-	-	-	-	20.9%	-	-	-	-
TOTAL DEBT SERVICE FUND EXPENDITURES	41,915	-	-	-	-	20.9%	-	-	-	-
EXCESS (DEFICIENCY) OF DEBT SERVICE AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	\$ 159,030	\$ -	\$ -	\$ -	\$ -	79.1%	-	-	-	-
TOTAL ACTIVE RETAIL WATER CONNECTIONS	(1)	(1)	(1)	(1)	(1)					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	(1)	(1)	(1)	(1)	(1)					

* Unaudited.
(1) Jonah Water Special Utility District provides water and wastewater service to the District.

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2016

Complete District Mailing Address:	<u>100 Congress Ave., Suite 1300</u> <u>Austin, TX 78701</u>
District Business Telephone Number:	<u>(512) 435-2300</u>
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):	<u>November 29, 2016</u>
Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)	<u>\$7,200</u>

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 9/30/2016	Expense Reimbursements 9/30/2016	Title at Year End
<i>Board Members:</i>				
JEFF P. O'JIBWAY	(Elected) 11/4/2014 - 11/6/2018	\$ 900	\$ -	President
DAVID ANTHONY STEIN	(Elected) 11/8/2016 - 11/3/2020	\$ 900	\$ -	Vice-President
ADAM KRUGER	(Elected) 11/8/2016 - 11/3/2020	\$ 1,350	\$ -	Secretary
TOBY THURMAN	(Elected) 11/4/2014 - 11/6/2018	\$ 1,350	\$ -	Assistant Secretary / Treasurer
PATRICK SHELTON	(Elected) 11/8/2016 - 11/3/2020	\$ 1,200	\$ 26	Treasurer
<i>Consultants:</i>				
Armbrust & Brown, PLLC	3/25/2010	\$ 33,040 \$ 39,000	\$ - \$ 114	Attorney Bond Related Services
Bott & Douthitt, PLLC	4/1/2012	\$ 15,050	\$ 150	District Accountant
Randall Jones & Asso. Engineering Inc.	3/15/2010	\$ 7,590	\$ -	District Engineer
McCall, Parkhurst & Horton, LLP	3/24/2010	\$ 47,750	\$ 1,151	Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	9/7/2016	\$ -	\$ -	Auditor
Maxwell Locke & Ritter LLP	11/5/2014	\$ 8,000 \$ 10,000	\$ - \$ -	Previous Auditor Bond Related Services
Public Finance Group LLC	4/1/2014	\$ 1,530 \$ 65,000	\$ - \$ 4,526	Financial Advisor Bond Related Services
Williamson County Tax Assessor/Collector	5/23/2013	\$ 63	\$ -	Tax Collector

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

OTHER SUPPLEMENTARY INFORMATION

SIENA MUNICIPAL UTILITY DISTRICT NO. 2
OSI-1. PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2016

Taxpayer	Type of Property	Tax Roll Year		
		2016	2015	2014
SEDC Devco Inc.	N/A	\$ 2,823,087	\$ 2,346,674	\$ 1,885,332
Highland Homes - Austin Ltd.	N/A	1,753,035	938,529	-
The Brohn Group LLC	N/A	1,578,448	1,171,010	-
Century Land Holdings II LLC	N/A	1,238,588	333,000	-
Century Land Holdings	N/A	516,325	1,047,217	-
Homeowner	N/A	357,254	-	-
Homeowner	N/A	347,215	119,990	-
Homeowner	N/A	345,330	-	-
Homeowner	N/A	334,441	-	-
Homeowner	N/A	325,363	-	-
Homeowner	N/A	-	203,906	-
Homeowner	N/A	-	202,708	-
Homeowner	N/A	-	175,817	-
Easy Kyle Partners LP	N/A	-	741,105	741,105
Double J Investments LP	N/A	-	-	23,406
SEDC Devco Inc. et al	N/A	-	-	21,500
Siena Kyle Commercial LP	N/A	-	-	12,280
Total		\$ 9,619,086	\$ 7,279,956	\$ 2,683,623
Percent of Assessed Valuation		34.2%	92.2%	100.0%

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SIENA MUNICIPAL UTILITY DISTRICT NO. 2
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2016

Type of Property	Tax Roll Year					
	2016		2015		2014	
	Amount	%	Amount	%	Amount	%
Single Family Residential	\$ 15,288,029	54.4%	\$ -	-	\$ -	-
Vacant Platted Lots/Tracts	300	-	23,613	0.3%	21,500	0.8%
Acreage, Land Only	6,410,915	22.8%	6,293,649	79.7%	7,627,209	284.2%
Farm and Ranch Improvements	-	-	500	-	500	-
Tangible Personal Business	51,827	0.1%	75,473	1.0%	-	-
Real Inventory	10,432,128	37.1%	5,574,496	70.6%	-	-
Exempt Property	3,613	-	1,500		-	-
Adjustments & Exemptions	(4,061,172)	-14.4%	(4,076,989)	-51.6%	(4,965,586)	-185.0%
Total	<u>\$ 28,125,640</u>	<u>100.0%</u>	<u>\$ 7,892,242</u>	<u>100.0%</u>	<u>\$ 2,683,623</u>	<u>100.0%</u>

APPENDIX B
Form of Bond Counsel Opinion

[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.]

**SIENA MUNICIPAL UTILITY DISTRICT NO. 2
UNLIMITED TAX BONDS, SERIES 2017
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,400,000**

AS BOND COUNSEL FOR SIENA MUNICIPAL UTILITY DISTRICT NO. 2 (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 July 19, 2017, 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, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

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

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



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

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

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 includable in a corporation's alternative minimum taxable



income for purposes of determining the alternative minimum tax imposed on corporations under 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,