

OFFICIAL STATEMENT DATED MARCH 24, 2015

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: S&P Insured “AA” (Stable Outlook); Moody’s Underlying “Baa1”  
See “MUNICIPAL BOND RATINGS AND INSURANCE”

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

**\$3,400,000**

**Travis County Municipal Utility District No. 2**  
(A Political Subdivision of the State of Texas Located in Travis County, Texas)

**UNLIMITED TAX REFUNDING BONDS, SERIES 2015**

**Dated: April 1, 2015**

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

Interest on the Travis County Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2015 (the “Bonds”) will accrue from April 1, 2015, is payable September 1, 2015 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company New York, New York, (“DTC”), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. See “Book-Entry-Only System.” So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”). The Bonds are obligations solely of Travis County Municipal Utility District No. 2 (the “District”) and are not obligations of the City of Manor, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.

The Bonds are being issued to currently refund the District’s remaining outstanding Unlimited Tax Bonds, Series 2006 (the “Series 2006 Bonds”) to achieve a debt service savings; advance refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”) to achieve a debt service savings; and pay the costs of issuing the Bonds. See “PLAN OF FINANCING.” The Bonds maturing on and after September 1, 2023, are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2022 or any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See “BOND INSURANCE.”



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

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

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

The Bonds are offered when, as and if issued by the District, and accepted by the initial purchaser thereof named below (the “Underwriter”) subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell & Giuliani LLP, Dallas, Texas. The Bonds in definitive form are expected to be available for delivery through DTC, on April 15, 2015.

**SAMCO Capital Markets, Inc.**

**MATURITY SCHEDULE  
(Due September 1)**

<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield <sup>(b)</sup></b>	<b>CUSIP Number <sup>(c)</sup></b>	<b>Due</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Reoffering Yield <sup>(b)</sup></b>	<b>CUSIP Number <sup>(c)</sup></b>	
2015	\$ 25,000	2.000%	0.750%	89439DEX9	2024 <sup>(a)</sup>	\$ 220,000	3.000%	2.750%	89439DFG5	
2016	25,000	2.000%	1.000%	89439DEY7	2025 <sup>(a)</sup>	230,000	3.000%	2.900%	89439DFH3	
2017	80,000	2.000%	1.300%	89439DEZ4	2026 <sup>(a)</sup>	240,000	3.000%	3.100%	89439DFJ9	
2018	80,000	2.000%	1.650%	89439DFA8	2027 <sup>(a)</sup>	245,000	3.000%	3.150%	89439DFK6	
2019	85,000	3.000%	1.900%	89439DFB6	2028 <sup>(a)</sup>	250,000	3.000%	3.250%	89439DFL4	
2020	90,000	3.000%	2.250%	89439DFC4	2029 <sup>(a)</sup>	265,000	3.125%	3.300%	89439DFM2	
2021	90,000	3.000%	2.300%	89439DFD2	2030 <sup>(a)</sup>	275,000	3.250%	3.350%	89439DFN0	
2022	200,000	3.000%	2.450%	89439DFE0	2031 <sup>(a)</sup>	285,000	3.250%	3.400%	89439DFP5	
2023 <sup>(a)</sup>	215,000	3.000%	2.600%	89439DFE7						
\$240,000 3.250% Term Bond due September 1, 2033 <sup>(a)</sup> Yield 3.500% <sup>(b)</sup> CUSIP Number 89439DFR1 <sup>(c)</sup>										
\$260,000 3.500% Term Bond due September 1, 2035 <sup>(a)</sup> Yield 3.600% <sup>(b)</sup> CUSIP Number 89439DFT7 <sup>(c)</sup>										

- (a) Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2023, in whole or from time to time in part, on September 1, 2022, 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, 2033 and September 1, 2035 (collectively, the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first call date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter. The yields may be changed at any time at the discretion of the Underwriter. Accrued interest from April 1, 2015 to the date of delivery of the Bonds to the Underwriter will be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. Neither the Underwriter, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**ASSURED GUARANTY MUNICIPAL CORP. ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX C - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriting

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions in the bond purchase agreement, to purchase the Bonds from the District for \$3,363,077.20 (an amount equal to the principal amount of the Bonds, less a net original issue discount of \$6,562.80, less an Underwriter's discount of \$30,360.00) plus accrued interest.

### Prices and Marketability

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

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

### Securities Laws

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT.

## MUNICIPAL BOND RATINGS AND INSURANCE

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

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

### BOND INSURANCE

#### **Bond Insurance Policy**

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

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

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

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

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

#### *Current Financial Strength Ratings*

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

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

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). In February 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

#### *Capitalization of AGM*

At December 31, 2014, AGM's policyholders' surplus and contingency reserve were approximately \$3,763 million and its net unearned premium reserve was approximately \$1,769 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary

Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

*Incorporation of Certain Documents by Reference*

Portions of the following document filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015).

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

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

*Miscellaneous Matters*

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

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

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**OFFICIAL STATEMENT SUMMARY**

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

**THE DISTRICT**

The District ..... Travis County Municipal Utility District No. 2 (the “District”), a political subdivision of the State of Texas, was created by an order of the Texas Water Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), on December 13, 1983 and confirmed pursuant to at an election held within the District on August 25, 1984. The District was created to provide water, wastewater and storm drainage to serve the land within its boundaries, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”

The District is one of four political subdivisions, also including Cottonwood Creek Municipal Utility District No. 1, Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2 (collectively, the "Participants" and individually a "Participant"), created to provide water, wastewater and storm drainage to approximately 1,514 acres located within eastern Travis County, Texas. See "THE MASTER DISTRICT."

Location ..... The District, which currently encompasses approximately 404 acres of land, of which approximately 396 acres are developable, is located entirely within the extraterritorial jurisdiction of the City of Manor (the "City" or "Manor"), except for approximately 11.7 acres of commercial and retail (which is located in the city limits of Manor), and entirely located within Travis County, Texas. The District is located approximately ten miles northeast of the central business district of the City of Austin, lies adjacent to the city limits of Manor. See "THE DISTRICT - Location."

Master District Service Area ..... The Participants currently comprise approximately 1,514 acres (the "Service Area") which include two master planned communities (ShadowGlen and Presidential Meadows) designed to ultimately contain single-family, multi-family, commercial, retail and office development as well as recreational amenities. All of the Participants have designated Wilbarger Creek Municipal Utility District No. 2 (the "Master District") to serve as the master district and regional provider of all major water, wastewater and drainage facilities to serve the approximately 1,514 acres within the Service Area pursuant to the provisions of the "Amended and Restated Contract for Financing and Operation of Regional Waste Collection, Treatment, and Disposal Facilities, Regional Water Supply and Delivery Facilities, and Regional Drainage, Including Water Quality, Facilities" (the "Master District Contract"), between the Master District and the Participants. Each Participant has agreed to levy a contract tax, unlimited as to rate or amount, as necessary, to pay costs under the Master District Contract, including its pro rata share of debt service on bonds issued by the Master District for the regional water, wastewater, and drainage facilities. Each Participant is responsible for constructing and financing its own internal water, wastewater, and drainage facilities. See "THE MASTER DISTRICT" and "INVESTMENT CONSIDERATIONS."

The Developer ..... The developer currently active within the District is SG Land Holdings LLC, a Delaware limited liability company (the “Developer”), which is owned by Southwest Shadow Holdings LLC, a Delaware limited liability company, and ColFin Shadow Investor LLC, a Delaware limited liability company. The Developer has engaged Argent Management LLC as its development manager to manage the development within the District.

Status of Development ..... Development of the District commenced in May 2002, and, as of March 1, 2015, approximately 205 acres (or 51.85% of the approximately 396 developable acres within the District) had been developed with utility facilities as the single-family residential subdivisions of ShadowGlen, Sections 1A, 1B, 2A, 2B, 3A, 3B, 4A, 4B, 5, 6, 7, 8, 10, 12, 13 and 14A, encompassing a total of 713 developed single-family lots. These developed lots included 635 completed homes, 4 homes under construction (all of which were under contract to a homebuyer) and 74 vacant developed single-family lots. Commercial development within the District includes a 15,000 square foot strip center called The Shops at ShadowGlen on approximately 2.3 acres, and a 36,000 square foot medical center on approximately 4.3 acres. The District also includes an amenity center on approximately 4 acres, which includes a 4,300 square foot recreation center, a junior Olympic swimming pool, a water spray park and two 35 foot water slides. See "THE DISTRICT –Current Status of Development.”

Homebuilders ..... According to the Developer, Ryland Homes is currently the active homebuilder within the District. The homes range in price from \$259,990 to \$290,990, with square footage ranging from 2,417 to 3,317. See “THE DEVELOPER – Homebuilders.”

### THE BONDS

Description ..... The Bonds in the aggregate principal amount of \$3,400,000 mature serially in varying amounts on September 1 of each of the years 2015 through 2031 and as Term Bonds which mature September 1, 2033 and September 1, 2035, as set forth on the inside cover page hereof. Interest accrues from April 1, 2015 at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2015 and each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."

Redemption ..... Bonds maturing on and after September 1, 2023 are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2022, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds designated as Term Bonds maturing September 1, 2033 and September 1, 2035 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 Manor, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record ..... The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations. See "FINANCIAL STATEMENT - Outstanding Bonds."

Authority for Issuance ..... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State; Chapter 1207 of the Texas Government Code, as amended; Chapters 49 and 54 of the Texas Water Code, as amended; and an order adopted by the Board of Directors of the District and a pricing certificate to be executed by the pricing officer as designated in the order on the date of sale of the Bonds (the order and the pricing certificate are collectively referred to herein as the “Bond Order”). See “THE BONDS – Authority for Issuance.”

Use of Proceeds ..... Proceeds from the sale of the Bonds will be used to (i) currently refund the District’s remaining outstanding Unlimited Tax Bonds, Series 2006 (the “Series 2006 Bonds”) to achieve a debt service savings; (ii) advance refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2010 (the “Series 2010 Bonds”) to achieve a debt service savings; and (iii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."

Bonds Authorized But Unissued ..... At an election held within the District on May 3, 2003, voters within the District authorized a total of \$38,580,000 in bonds to acquire water, wastewater, and drainage facilities. To date, the District has issued four installments of bonds to acquire water, wastewater and drainage facilities in the aggregate principal amount of \$8,855,000, leaving \$29,725,000 in bonds authorized but unissued for water, wastewater and drainage facilities. Additionally, at the May 3, 2003 election, the voters approved the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of new money bonds issued, assuming issuance of the entire authorization, which equals \$57,870,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter’s discount is also counted against the District’s refunding authorization. The District has previously used \$420,000 of the total amount of refunding bonds authorized. The issuance of the Bonds uses \$305,000 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$725,000 of the District’s voted authorization of refunding bonds and, following the issuance of the Bonds, \$57,145,000 of voted authorization of refunding bonds remains unissued. Additionally, at an election held within the District on February 7, 2004, voters within the District authorized a total of \$3,500,000 in bonds for parks and recreational facilities, all of which remains authorized but unissued. See “FINANCIAL STATEMENT – Outstanding Bonds” and “THE BONDS – Issuance of Additional Debt.”

Municipal Bond Ratings and Bond Insurance .....	Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "Baa1" to the Bonds.
Tax Exemption .....	In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal tax purposes under existing law, subject to matters described in "TAX MATTERS" herein, including the alternative minimum tax on corporations.
Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2015 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."
General Counsel .....	Armbrust & Brown, PLLC, Austin, Texas.
Bond Counsel .....	McCall, Parkhurst & Horton L.L.P., Austin, Texas.
Underwriter's Counsel .....	Bracewell & Giuliani LLP, Dallas, Texas.
Financial Advisor .....	Public Finance Group LLC, Austin, Texas.
Verification Agent .....	Grant Thornton LLP, Minneapolis, Minnesota.

**INVESTMENT CONSIDERATION**

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

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited as of March 1, 2015)

2014 Certified Assessed Valuation		\$123,947,928 <sup>(a)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		
District Debt	\$ 7,880,000	
Contract Debt	<u>5,857,579</u>	
Total		\$ 13,737,579 <sup>(b)</sup>
Ratio of Gross Debt to 2014 Certified Assessed Valuation		11.08%
2014 Tax Rate		
Debt Service	\$ 0.5008	
Maintenance	0.0937	
Contract	<u>0.3800</u>	
<b>Total 2014 Tax Rate</b>		<u>\$ 0.9745</u> <sup>(c)</sup>
Debt Service Fund Balance (as of February 4, 2015)		\$ 677,994 <sup>(d)</sup>
Percentage of current tax collections (Tax Years 2001-2013)		97.21% <sup>(e)</sup>
Percentage of total tax collections (Tax Years 2001-2013)		107.85% <sup>(e)</sup>
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2030, inclusive)		\$ 608,111
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.52 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2029)		\$ 644,025
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.55 /\$100 AV
Number of active connections as of January 1, 2015		
Single Family - Occupied		637
Single Family - Vacant		<u>18</u>
<b>Total Number of Active Connections</b>		<b>655</b>
Estimated Population as of January 1, 2015		2,230 <sup>(f)</sup>

- (a) Assessed valuation of the District as of January 1, 2014 as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Includes the Bonds, excludes the Refunded Bonds. The District is a party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase and maintain certain facilities to provide regional water, wastewater and drainage services to all Participants. The Master District has issued two series of new money bonds and two series of refunding bonds in the aggregate original principal amount of \$19,920,000 of which \$9,340,000 is currently outstanding. The contract debt amount reflects the District's pro rata share (62.71% based on the 2014 Certified Assessed Valuation of \$197,636,871 of the Master District Service Area). See "THE MASTER DISTRICT – Contract Tax Bonds."
- (c) The District adopted the 2014 tax rate at its meeting in September 2014.
- (d) Unaudited as of February 4, 2015. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (e) See "TAX DATA – Tax Collections."
- (f) Based upon 3.5 residents per occupied single family home.

**OFFICIAL STATEMENT**  
relating to  
**\$3,400,000**  
**Travis County Municipal Utility District No. 2**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2015**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Travis County Municipal Utility District No. 2 (the "District"), a political subdivision of the State of Texas (the "State"), of its \$3,400,000 Unlimited Tax Refunding Bonds, Series 2015 (the "Bonds").

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on February 4, 2015 (the "Order") and a pricing certificate to be executed by the pricing officer on the date of sale of the Bonds, as authorized by the Order (the Order and pricing certificate are collectively referred to herein as the "Bond Order"), pursuant to Article XVI, Section 59 of the Constitution and general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207 of the Texas Government Code, as amended.

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

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

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

**PLAN OF FINANCING**

**Purpose**

At an election held within the District on May 3, 2003, voters within the District authorized a total of \$38,580,000 in bonds to acquire water, wastewater, and drainage facilities. To date, the District has issued four installments of bonds to acquire water, wastewater and drainage facilities in the aggregate principal amount of \$8,855,000, leaving \$29,725,000 in bonds authorized but unissued for water, wastewater and drainage facilities.

Additionally, at the May 3, 2003 election, the voters approved the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of new money bonds issued, assuming issuance of the entire authorization, which equals \$57,870,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter's discount is also counted against the District's refunding authorization. The district has previously used \$420,000 of the total amount of refunding bonds authorized. The issuance of the Bonds uses \$305,000 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$725,000 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$57,145,000 of voted authorization of refunding bonds remains unissued.

Additionally, at an election held within the District on February 7, 2004, voters within the District authorized a total of \$3,500,000 in bonds for parks and recreational facilities, all of which remains authorized but unissued.

The Bonds are being issued to achieve a debt service savings in the years 2015 through 2035, inclusive, by currently refunding \$1,365,000 of the District's Unlimited Tax Bonds, Series 2006 and advance refunding \$1,730,000 of the District's Unlimited Tax Bonds, Series 2010 (collectively, the "Refunded Bonds"). See "INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payments – *Impact on District Tax Rates*" and "DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3."

## The Refunded Bonds

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

<b>Year</b>	<b>Series 2006</b>	<b>Series 2010</b>	<b>Total</b>
2017	\$ -	\$ 55,000	\$ 55,000
2018	-	55,000	55,000
2019	-	60,000	60,000
2020	-	65,000	65,000
2021	-	65,000	65,000
2022	105,000	70,000	175,000
2023	115,000	75,000	190,000
2024	120,000	80,000	200,000
2025	125,000	85,000	210,000
2026	130,000	90,000	220,000
2027	140,000	90,000	230,000
2028	145,000	95,000	240,000
2029	155,000	100,000	255,000
2030	160,000	110,000	270,000
2031	170,000	115,000	285,000
2032	-	120,000	120,000
2033	-	125,000	125,000
2034	-	135,000	135,000
2035	-	140,000	140,000
	<b>\$ 1,365,000</b>	<b>\$ 1,730,000</b>	<b>\$ 3,095,000</b>
Redemption Date:	5/21/2015	9/1/2016	

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## The Remaining Outstanding Bonds

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

Year	Series 2006	Series 2010	Series 2011	The Bonds	Total
2015	\$ -	\$ 50,000	\$ 265,000	\$ 25,000	\$ 340,000
2016	-	50,000	275,000	25,000	350,000
2017	-	-	285,000	80,000	365,000
2018	-	-	295,000	80,000	375,000
2019	-	-	295,000	85,000	380,000
2020	-	-	305,000	90,000	395,000
2021	-	-	320,000	90,000	410,000
2022	-	-	230,000	200,000	430,000
2023	-	-	240,000	215,000	455,000
2024	-	-	250,000	220,000	470,000
2025	-	-	265,000	230,000	495,000
2026	-	-	275,000	240,000	515,000
2027	-	-	285,000	245,000	530,000
2028	-	-	300,000	250,000	550,000
2029	-	-	315,000	265,000	580,000
2030	-	-	180,000	275,000	455,000
2031	-	-	-	285,000	285,000
2032	-	-	-	120,000	120,000
2033	-	-	-	120,000	120,000
2034	-	-	-	130,000	130,000
2035	-	-	-	130,000	130,000
	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 4,380,000</u>	<u>\$3,400,000</u>	<u>\$ 7,880,000</u>

## Escrow Agreement

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

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

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

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

**Sources and Uses of Funds**

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

Sources of Funds:	
Par Amount of Bonds	\$3,400,000.00
Net Original Issue Discount	(6,562.80)
Accrued Interest on the Bonds	<u>4,026.22</u>
Total Sources of Funds	\$3,397,463.42
Uses of Funds:	
Escrow Deposit	\$3,224,405.41
Costs of Issuance <sup>(a)</sup>	134,726.47
Underwriter’s Discount	30,360.00
Deposit to Debt Service Fund (Accrued Interest and Rounding Amount)	<u>7,971.54</u>
Total Uses of Funds	\$3,397,463.42

(a) Includes municipal bond insurance premium.

**THE BONDS**

**General Description**

The Bonds will bear interest from April 1, 2015 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 September 1, 2015 and each March 1 and September 1 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only utilizing DTC’s book-entry-only system (the “Book-Entry-Only System”). So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent”).

**Redemption**

**Optional Redemption...** The Bonds maturing on and after September 1, 2023, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2022, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

**Mandatory Sinking Fund Redemption . . .** In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2033 and September 1, 2035 may also be subject to mandatory sinking fund redemption prior to maturity by lot or other customary 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:

<b>\$240,000 Term Bond Maturing September 1, 2033</b>		<b>\$260,000 Term Bond Maturing September 1, 2035</b>	
Mandatory Redemption	Principal	Mandatory Redemption	Principal
<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
2032	\$ 120,000	2034	\$ 130,000
2033*	120,000	2035*	130,000

\*Stated Maturity.

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

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

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

### **DTC Redemption Provision**

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

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

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

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

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

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

## **Replacement Bonds**

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

## **Authority for Issuance**

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

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

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

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

## **Payment Record**

The District has previously issued four series of new money bonds and one series of refunding bonds, consisting of: \$2,000,000 Unlimited Tax Bonds, Series 2004; \$2,495,000 Unlimited Tax Bonds, Series 2005; \$2,360,000 Unlimited Tax Bonds, Series 2006; \$2,000,000 Unlimited Tax Bonds, Series 2010; and \$4,775,000 Unlimited Tax Refunding Bonds, Series 2011 (collectively, the "Previously Issued Bonds"), which list includes some of the potential Refunded Bonds. The District has not defaulted in the payment of the principal of or interest on the Previously Issued Bonds.

## **Flow of Funds**

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

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

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

## **Defeasance of Outstanding Bonds**

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

the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order.

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

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

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

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

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

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

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

## **Paying Agent/Registrar**

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

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

## **Record Date**

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

## **Issuance of Additional Debt**

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. At an election held within the District on May 3, 2003, voters within the District authorized a total of \$38,580,000 in bonds to acquire water, wastewater, and drainage facilities. To date, the District has issued four installments of bonds to acquire water, wastewater and drainage facilities in the aggregate principal amount of \$8,855,000, leaving \$29,725,000 in bonds authorized but unissued for water, wastewater and drainage facilities. Additionally, at the May 3, 2003 election, the voters approved the issuance of refunding bonds in an amount not to exceed one and one-half times the amount of new money bonds issued, assuming issuance of the entire authorization, which equals \$57,870,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter's discount is also counted against the District's refunding authorization. The district has previously used \$420,000 of the total amount of refunding bonds authorized. The issuance of the Bonds uses \$305,000 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$725,000 of the District's voted authorization of refunding bonds and, following the issuance of the Bonds, \$57,145,000 of voted authorization of refunding bonds remains unissued.

Additionally, at an election held within the District on February 7, 2004, voters within the District authorized a total of \$3,500,000 in bonds for parks and recreational facilities, all of which remains authorized but unissued.

Neither Texas law nor the Bond Order imposes a limitation on the amount of additional indebtedness that may be issued by the District. Any additional indebtedness issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

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

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

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

## **Specific Tax Covenants**

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

## **Additional Covenants**

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

## **Remedies in Event of Default**

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

## **Consolidation**

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

## **Annexation**

The District lies entirely within the extraterritorial jurisdiction of the City except for approximately 11.7 acres of commercial property which is located in the city limits of Manor. Under the Texas Water Code, the District may be annexed by the City without the District's consent. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control or knowledge of the annexation plans of the City. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "MANOR AGREEMENT."

## **Alteration of Boundaries**

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

## **Amendments to the Bond Order**

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

## Approval of the Bonds

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

### BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

## **INVESTMENT CONSIDERATIONS**

### **General**

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

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

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

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

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

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

*Dependence Upon the Developer, Lot Owners and Builders:* 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 their land would restrict the rate of growth of taxable value in the District. See "THE DEVELOPER."

*Maximum 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 2014 Certified Taxable Assessed Valuation of the District is \$123,947,928. After issuance of the Bonds, the Maximum Requirement will be \$644,025 (2029) and the Average Requirement will be \$608,111 (2015 through 2030, inclusive). Assuming (1) no increase or decrease from the 2014 Certified Taxable Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.55 and \$0.52 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."

*Undeveloped Acreage . . .* All but approximately 186.32 acres of developable land within the District has been provided with water, wastewater and storm drainage and detention facilities as of March 1, 2015. 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 March 1, 2015, approximately 73 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 "Maximum Impact on District Tax Rates" above.

*Effects of Master Planned Community/Regulatory Constraints . . .* The Developer has represented that it intends to sell developed lots to homebuilders. See "THE DISTRICT" and "THE DEVELOPER." However, the Developer has no legal obligation to the District to carry out its current plans or any other plans of development within the District. Furthermore, there is no restriction on the Developer or other landowners selling their land. The District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developer. See "Factors Affecting Taxable Values and Tax Payments" above. Neither the Developer nor any subsidiaries, if any, are obligated to pay principal of and interest on the Bonds. See "THE DEVELOPER." Furthermore, the Developer has no binding commitment to the District to carry out any plans of development in the District, and the furnishing of information related to proposed development by a developer should not be interpreted as such a commitment.

## **Tax Collections and Foreclosure Remedies**

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

## **Registered Owners' Remedies**

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

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

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

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

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

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

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

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

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

## Marketability

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

## Continuing Compliance with Certain Covenants

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

## Environmental Regulation

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

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

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

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

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

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

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

## **Forward-Looking Statements**

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

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

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

## **Bond Insurance Risks**

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

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

insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such redemption by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

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

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

### **Future Debt**

The District has reserved in the Bond Order the right to issue the remaining \$29,725,000 new money bonds as well as the \$3,500,000 park and recreational facilities, each of which bonds are authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$29,725,000 and the \$3,500,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order, including refunding bonds pursuant to the May 3, 2003 election. See "THE SYSTEM".

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

Within the District there is the potential for property to be owned by the "Strategic Housing Finance Corporation of Travis County" ("SHFC"), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the "Texas Housing Finance Corporations Act"). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax exempt, therefore during the thirty nine (39) month term of the lease, during which SHFC owns the home, that property is removed from the tax rolls of the District. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax exempt indefinitely. Presently, there are no homes within the District that are owned by SHFC and have been removed from the tax rolls. Because the SHFC program is between itself and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

### **Future and Proposed Legislation**

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

### **Drought Conditions**

Central Texas, like other areas of the State, is experiencing drought conditions. The District adopted a water conservation and drought contingency plan and currently has implemented water restrictions for residents of the District. Metro H2O, Ltd., through the Master District, provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions continue, water usage, rates and revenues could be impacted.

## THE MASTER DISTRICT

### General

The District along with the other three Participants were created as conservation and reclamation districts for the purpose of providing water, wastewater and storm drainage facilities to the acreage within their respective boundaries. Pursuant to an election held within the boundaries of each Participant on May 3, 2003, each Participant approved the Master District Contract which designates Wilbarger Creek Municipal Utility District No. 2 as the "Master District" to serve as the regional provider of water, wastewater and storm drainage, including water quality, facilities to serve development within the Participants. The Master District Contract also authorizes the Master District to issue contract tax bonds to acquire, purchase, construct and maintain the Master District Facilities to serve the Participants. The Master District will own and operate the Master District Facilities. See "THE SYSTEM."

### Master District Service Area

The following chart more completely describes the Participants, including each Participant's acreage and projected ultimate living unit equivalents ("LUEs") based on current land use plans.

PARTICIPANTS	Acreage <sup>(a)</sup>	Existing LUEs <sup>(b)</sup>	Projected Ultimate LUEs <sup>(c)</sup>
The District	404	680	1,247
Cottonwood Creek MUD No. 1	418	470	2,216
Wilbarger Creek MUD No. 1	300	145	1,555
Wilbarger Creek MUD No. 2	392	-	1,449
Subtotal	1,514	1,295	6,467
Park and Irrigation	-	-	100
Total	1,514	1,295	6,567

(a) Gross acreage includes all easements, rights-of-way and any other undevelopable acreage.

(b) As of March 1, 2015.

(c) Provided by the Developer and represents the existing land use plan. The District makes no representation that property within the District or within the Participants will develop as shown above.

Metro H2O, Ltd., a Texas limited partnership ("Metro H2O"), has entered into an "Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeastern Travis County, Texas" (the "Water Supply Contract") with the four Participants to provide up to 6,010 LUEs of potable water supply capacity to the Participants. Additionally, the Participants and Metro H2O originally entered into an "Amended and Restated Regional Sewage Disposal Capacity and Services Agreement for a Portion of Northeastern Travis County, Texas" (the "Wastewater Treatment Contract") whereby Metro H2O agreed to construct certain wastewater treatment facilities sufficient to serve up to 6,010 LUEs of wastewater from the Participants. The currently estimated 6,567 LUEs projected to be developed within the Participants is in excess of the 6,010 LUEs currently included in the Participants' reserved LUE capacity under the Water Supply Contract and Wastewater Treatment Contract. In connection with the acquisition of the Wastewater Treatment Plant from Metro H2O, the Master District acquired Metro H2O's interest in the Wastewater Treatment Contract. The Participants expect to commence negotiations with Metro H2O, with respect to the Water Supply Contract, and the Master District, with respect to the Wastewater Treatment Contract, regarding amending these contracts to increase the existing LUE capacity. See "THE SYSTEM" – Water Supply and Distribution" and – "Wastewater Collection and Treatment." Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Water Supply Contract and Wastewater Treatment Contract but has not been allotted any capacity.

### Contract Tax Bonds

The Master District Contract provides that each Participant shall pay a pro rata share of debt service on any Master District bonds, issued from time to time to acquire, construct, purchase and maintain Master District Facilities, based upon the Participant's certified assessed valuation as a percentage of the total assessed valuation in all the Participants. The debt service requirements shall be calculated to include the charge and expenses of paying agents, registrars and trustees utilized in connection with the bonds, the principal, interest and redemption requirements of the bonds and all amounts required to establish and maintain funds required under the bond resolution or trust indenture relating to such bonds. Each Participant is obligated to pay its pro rata share of the annual debt service on such bonds from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount, revenues derived from the operation of each Participant's internal water, wastewater and drainage systems or from any other legally available funds of each Participant. Each Participant's pro rata share of debt service requirements will

be calculated annually by the Master District; however, the levy of a contract tax for the purpose of paying debt service on the bonds is the sole responsibility of each Participant.

The Master District has issued \$4,250,000 Unlimited Contract Tax Bonds, Series 2006; \$5,660,000 Unlimited Contract Tax Bonds, Series 2008; \$5,100,000 Unlimited Contract Tax Refunding Bonds, Series 2010; and \$4,910,000 Unlimited Contract Tax Refunding Bonds, Series 2012 (collectively, the "Master District Bonds"). The District's pro rata share of such debt is \$5,857,579 (or 62.71%) based upon the District's percentage of the cumulative assessed value of the Participants (2014 Assessed Valuation of \$197,636,871) multiplied by the outstanding principal amount of Master District bonds issued (\$9,340,000).

The Master District expects to issue additional unlimited contract tax bonds from time to time, as it becomes financially feasible, to acquire or construct a second elevated storage tank, expected to be needed when 2,500 connections are completed within the Participants. The Master District also intends to finance future expansions of the Wastewater Treatment Plant through the issuance of bonds, as well as any other Master District Facilities which may be required in the future.

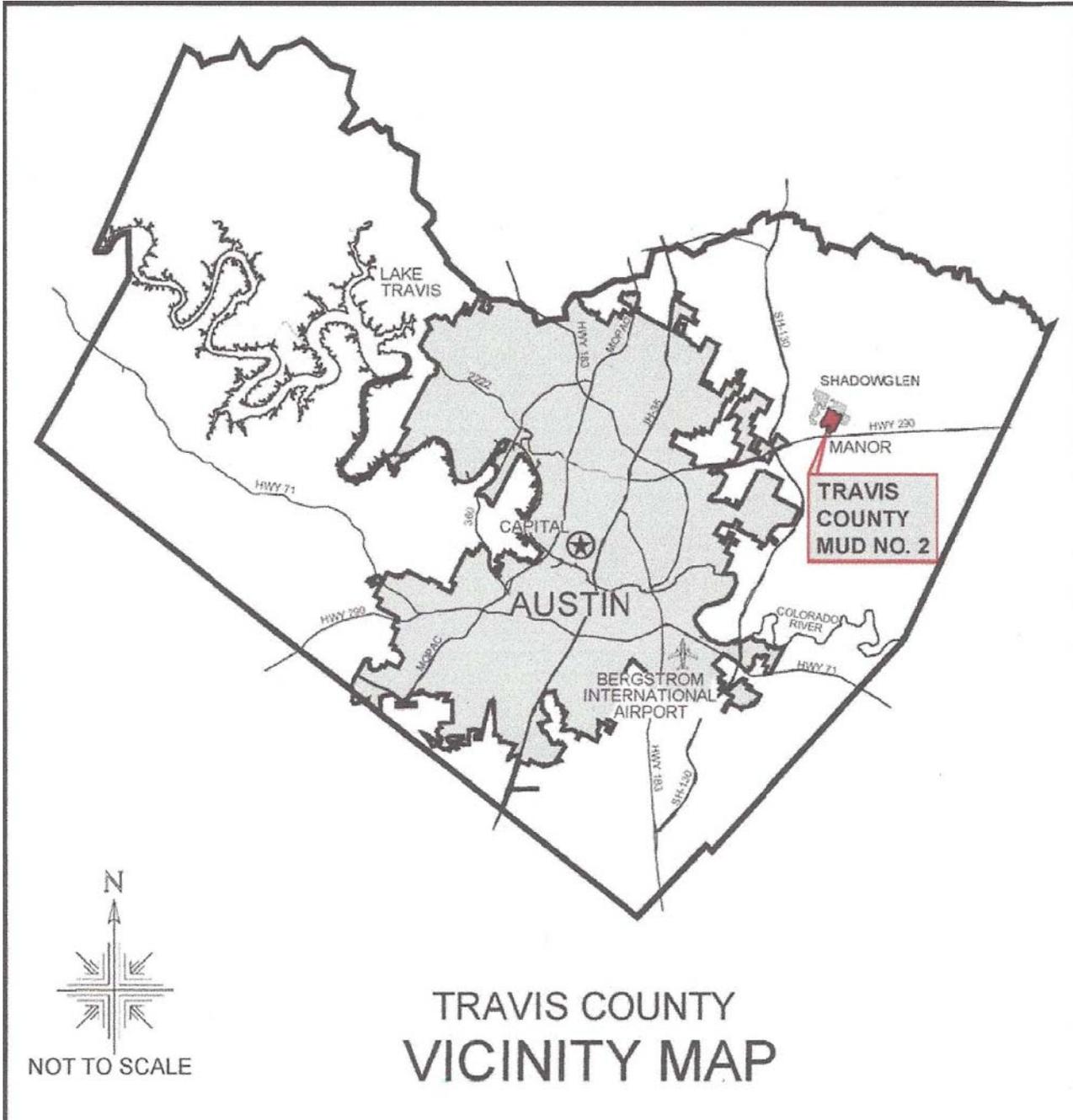
### **Operation and Maintenance Expenses**

Pursuant to the Master District Contract, each Participant is further obligated to pay monthly charges to the Master District for water, sewer, and drainage, including water quality, services rendered pursuant to the Master District Contract ("Monthly Charges"). The Monthly Charges to be paid by each Participant to the Master District will be used to pay each Participant's share of operation and maintenance expenses for Master District Facilities and to provide for an operation and maintenance reserve equal to five months of operation and maintenance expenses for such facilities. Each Participant's share of operation and maintenance expenses and reserve requirements is calculated by the Master District based upon the following categories of costs: (i) direct costs, including LUE fee payments and other costs directly incurred by the Participant; (ii) volume-related costs, including actual usage fees related to water supply and wastewater collection and treatment; and (iii) all other costs, including administrative costs. The Master District bills the Participants monthly for such costs. Each Participant, in turn, charges retail water and wastewater rates to its customer based upon actual usage, the revenues from which are used to pay the Monthly Charges. The current Monthly Charges being charged to the District by the Master District average approximately \$66,236/month, according to the District's bookkeeper Bott & Douthitt, P.L.L.C.

Pursuant to the Master District Contract, each Participant is obligated to establish and maintain rates, fees and charges for services provided by each Participant's water distribution system, wastewater collection system, and drainage system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay each Participant's operation and maintenance expenses, and each Participant's obligations pursuant to the Master District Contract, including each Participant's pro rata share of the Master District's debt service requirements, Monthly Charges and any expenses related to the billing and collecting of the Monthly Charges by the Master District.

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LOCATION MAP



TRAVIS COUNTY  
VICINITY MAP

## THE DISTRICT

### General

The District is a conservation and reclamation district created by an order of the Texas Water Commission, a predecessor to the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"), dated December 13, 1983. Creation of the District was confirmed by the voters of the District at an election held on August 25, 1984. The District currently operates under Chapters 49 and 54 of the Texas Water Code and is subject to Article XVI, Section 59, of the Texas Constitution. The District was created to provide water, wastewater and storm drainage for the development within its boundaries.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. If approved by the voters within the District and the TCEQ, the District may establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Fire protection and emergency services are currently provided to the residents of the District by Travis County Emergency Services District No. 12. The District is additionally authorized pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code to issue bonds, subject to voter approval and the approval of TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. Pursuant to an election held within the District on February 7, 2004, the voters within the District approved the issuance of \$3,500,000 in bonds for park and recreational facilities.

### Management of the District

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Wilmer Roberts	President	2016	3 Years 2 Months
David Onsongo	Vice President	2016	2 Years 3 Months
Amy Pankop Geallis	Secretary	2018	3 Years
Anna M. Canaves	Assistant Secretary	2018	1 Year 7 Months
Brandon Somers	Assistant Secretary	2018	1 Year 4 Months

### Consultants

#### Tax Assessor/Collector

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

#### Operator

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

#### Bookkeeper

Bott & Douthitt, P.L.L.C. ("B&D"), Certified Public Accountants, is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 35 other special districts.

#### Engineer

The District's consulting engineer is Schroeder Engineering Company (the "Engineer"). Such firm serves as consulting engineer to 11 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**

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

## **General Counsel**

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

## **Location**

All of the property within the District, except for approximately 11.7 acres of commercial and retail (which is located in the city limits of Manor), is located entirely within the extraterritorial jurisdiction of Manor and entirely within Travis County, Texas. The District is situated approximately ten miles northeast of the central business district of Austin, lies adjacent to the city limits of Manor. A portion of the land within the District borders U.S. Highway 290. U.S. Highway 290 is currently undergoing expansion and widening due to its proximity to State Highway 130, an approximately 49 mile toll road that extends from Interstate Highway 35 near State Highway 195 north of Georgetown, Texas, southward to U.S. Highway 183, southeast of Austin.

The District, as originally created, contained a total of approximately 314 acres and currently encompasses approximately 404 acres as a result of two exclusions of property and four annexations of property.

## **Historical Development within the District**

The District was originally created by the Texas Water Commission (the predecessor of the TCEQ) by an order dated December 13, 1983 upon the petition of David W. Sameson, Trustee, C.B. Carpenter, Trustee and Austin-Manor Investments Joint Venture ("Austin Manor"), the original landowners. On August 15, 1994, Cottonwood Holdings, Ltd., a Texas limited partnership ("CHL"), purchased all of the acreage within the District (as the District was then configured).

Subsequently, in 2001, CHL acquired an additional 150 acre tract of land from Ben Russell Eppright, Jr., Trustee, Nancy E. Nordquist Trust, of which approximately 56 acres is located within the District, as well as the acreage in Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2.

In September 2001, ShadowGlen Development Corporation, a Texas corporation ("SDC"), entered into an option contract with CHL (the "Option Contract") to purchase substantially all of the remaining acres located within the District as well as approximately 454 total acres located within Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2.

In November 2001, SDC and ShadowGlen Residential Community, Ltd., a Texas limited partnership ("SRCL"), whose general partner is McGuyer Homebuilders, Inc., a Texas corporation, and limited partners include SDC and MHI Partnership Ltd., a Texas limited partnership ("MHI"), purchased all of the acreage within the District covered by the Option Contract except approximately 95 acres which was retained by CHL.

The District contains approximately 11.7 acres of commercial reserves. In 2005, approximately 2.3 acres were sold to Spasco, Ltd. ("Spasco"), a Texas limited partnership, which constructed a 15,000 square foot mixed use commercial retail strip center called The Shops at ShadowGlen on this acreage. In September 2014, Spasco sold the strip center to HFS Brothers Investments LLC, a Texas limited liability company. In 2013, approximately 4.3 acres were sold to Shadowglen MOB Partners LLC, a Texas limited liability company, which constructed a 36,000 square foot medical center on this acreage that opened in the spring of 2014. CHL currently owns the remaining 5.1 acres of commercial acreage within the District.

In May 2009, SRCL's remaining vacant developed lots (101 lots) and remaining undeveloped acreage (approximately 102 acres) in the District were foreclosed upon by RFC Construction Funding, LLC, a Delaware limited liability company and a subsidiary of General Motors Acceptance Corporation ("RFC"), which held various promissory notes evidencing indebtedness of SRCL. The foreclosed property also included land located in Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2. The foreclosed property within the District, Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2 is collectively referred to as the "Foreclosed Property". At the foreclosure sale, the Foreclosed Property was purchased by RC Properties XIV ("RC Properties), an affiliate of RFC.

On September 25, 2009, 2009 XIF, LLC, a Texas limited liability company ("XIF"), purchased the Foreclosed Property from RC Properties. XIF continued the development of residential property within the District until December, 2010.

In December 2010, SRCL, XIF and SDC entered into a joint venture and formed 2010 ShadowGlen LLC, a Texas limited liability company ("2010 ShadowGlen"), to own and develop the remaining residential portions of the District that have not been sold to residents or homebuilders. On December 31, 2010 and January 5, 2011, SRCL, XIF and SDC conveyed developed single family lots and undeveloped land and assigned

development rights relating to property in the District to 2010 ShadowGlen. In connection with the formation of 2010 ShadowGlen, CHL conveyed its remaining residential acreage within the Participants to SDC, which, in turn, contributed that property to 2010 ShadowGlen.

In December 2012, SG Land Holdings LLC (“SG Land Holdings” or the “Developer”), a Delaware limited liability company, acquired all of the property in the ShadowGlen development owned by 2010 ShadowGlen. SG Land Holdings is owned by Southwest Shadow Holdings LLC, a Delaware limited liability company, and ColFin Shadow Investor LLC, a Delaware limited liability company. The Developer has engaged Argent Management LLC as its development manager to manage the development within the District.

**Current Status of Development**

Development of the District commenced in May 2002, and, as of March 1, 2015, approximately 205 acres (or 51.85% of the approximately 396 developable acres within the District) had been developed with utility facilities as the single-family residential subdivisions of ShadowGlen, Sections 1A, 1B, 2A, 2B, 3A, 3B, 4A, 4B, 5, 6, 7, 8, 10, 12, 13 and 14A, encompassing a total of 713 developed single-family lots. These developed lots included 635 completed homes, 4 homes under construction (all of which were under contract to a homebuyer) and 74 vacant developed single-family lots, as shown in the chart below. Commercial development within the District includes a 15,000 square foot strip center called The Shops at ShadowGlen on approximately 2.3 acres, and a 36,000 square foot medical center on approximately 4.3 acres. The District also includes an amenity center on approximately 4 acres, which includes a 4,300 square foot recreation center, a junior Olympic swimming pool, a water spray park and two 35 ft. water slides.

	Acreage	Platted Lots	Single Family		
			Completed Homes	Homes Under Construction	Vacant Lots
<b>A. Developed with Utility Facilities</b>					
ShadowGlen Phase One					
Sections 1A, 2A, 3A & 4A	47.61	139	132	2	5
Sections 1B, 2B, 3B & 4B	55.86	208	208	0	0
Section 5	9.06	39	39	0	0
Section 6	8.45	35	35	0	0
Section 7	13.17	60	60	0	0
Section 8	12.58	55	55	0	0
Section 10	12.43	54	36	2	16
Sections 12 and 13	24.70	67	15	0	52
Section 14A	15.10	56	55	0	1
Commercial	2.30	0	0	0	0
Amenity Center	<u>4.00</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Developed with Utilities</b>	<b>205.26</b>	<b>713</b>	<b>635</b>	<b>4</b>	<b>74</b>
<b>B. Remaining Developable Acreage</b>					
Single-Family	181.22				
Retail/Commercial	<u>9.40</u>				
<b>Total Remaining Developable Acreage</b>	<b>190.62</b>				
<b>D. Undevelopable Acreage</b>					
	<b><u>8.23</u></b>				
<b>Total</b>	<b>404.11</b>				

**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 any party's ability to sell lots and/or other property and of any homebuilder to sell completed homes as described in this Official Statement under the caption “INVESTMENT CONSIDERATIONS.” If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$29,725,000 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 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.

## MANOR AGREEMENT

The District lies primarily within the extraterritorial jurisdiction and city limits of Manor and, pursuant to a resolution adopted by the Manor City Council on June 15, 1983, Manor consented to the creation of the District. Manor's consent is subject to several provisions, including: (i) all facilities must be constructed in accordance with plans and specifications approved by Manor; (ii) Manor has the right to inspect all facilities being constructed by the District; and (iii) except as may be approved by Manor, bonds may only be issued to provide service to the territory within the District. The consent resolution also restricted the purposes for which the District may issue bonds to the purposes of the purchase, construction, acquisition, repair, extension, and improvement of land, easements, works, improvements, facilities, plants, equipment, and appliances necessary (a) to provide a water supply for municipal uses, domestic uses, and commercial purposes, (b) to collect, transport, process, dispose of, and control all domestic, industrial, or communal wastes, whether in fluid, solid, or composite state, (c) to gather, conduct, divert, and control local storm water or other local harmful excesses of water in District, and (d) for the payment of organization expenses, operation expenses during construction, and interest during construction. Pursuant to such consent resolution, all bonds issued by the District must mature within 40 years.

Additionally, effective January 10, 2001, the District, CHL, and Manor entered into a "Development Agreement for the Cottonwood Subdivision" (the "Original Development Agreement"), which set forth various terms regarding development within the District. Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2 subsequently joined in the execution of the Original Development Agreement. Pursuant to the Original Development Agreement, Manor consented to certain annexations into and exclusions from the District and further authorized the District to provide services authorized by State law. The Original Development Agreement also authorized the District to issue bonds and notes, including bond anticipation notes or refunding bonds, for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving, or extending a waterworks, sanitary sewer and drainage and storm sewer system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and administrative facilities required in connection therewith. Manor also consented to the District's joinder in the Water Supply Contract and the Wastewater Treatment Contract, each as amended from time to time. Under the terms of the Original Development Agreement, Manor further agreed to provide solid waste disposal and collection services to all residences and businesses within the District for the same fees and upon the same terms and conditions as Manor provides such services to in-city customers. Under this arrangement, the District is required to bill all single family residences for solid waste disposal and collection services and pay such revenues over to Manor, while businesses and multifamily residences within the District are billed directly by Manor or its contract provider. The Original Development Agreement also authorized Manor to regulate and manage the use and occupancy by third parties of the streets and roadways within the District; however, Manor assumed no obligation to establish or enforce traffic regulations within the District or to design, construct, improve, or repair any street or roadway within the District. The Original Development Agreement also provided that Manor will not dissolve or abolish the District for a period of 20 years from the date of the Original Development Agreement; however, the Original Development Agreement did provide that, if the District challenged or otherwise failed to honor Manor's rights with respect to solid waste disposal and collection services and the regulation of streets and roadways within the District and failed to cure such failure within 180 days after written notice from Manor, Manor may annex the District and dissolve and abolish in compliance with state law, which would require Manor to assume the assets and liabilities of the District, including the Bonds. The Original Development Agreement also set forth Manor's consent to the creation of both Wilbarger Creek Municipal Utility District No. 1 and Wilbarger Creek Municipal Utility District No. 2.

In February 2004, voters within the District authorized \$3,500,000 in bonds for park and recreational facilities. In 2005, the parties to the Original Development Agreement entered into an amendment to the Original Development Agreement that, among things, expanded the purpose for which bonds may be issued to include any purpose authorized by Article 16, Section 59 of the Texas Constitution. The Original Development Agreement was further modified as between the City of Manor, ShadowGlen Residential Community, Ltd., and CHL pursuant to an Addendum dated July 5, 2007.

The term of the Original Development Agreement as between Manor and the developer parties thereunder was for a period of ten years and expired on January 10, 2011. The Original Development Agreement did not expire as between Manor, the District, Wilbarger Creek MUD No. 1, and Wilbarger Creek MUD No. 2. At the request of CHL and 2010 ShadowGlen, successor to the portion of the property subject to the Original Development Agreement previously owned by ShadowGlen Residential Community, Ltd., the parties entered into a "Development Agreement for the ShadowGlen Subdivision" (the "Restated Development Agreement") dated effective August 24, 2012, which (i) amended and restated the Original Development Agreement in its entirety as between Manor, the District, Wilbarger Creek MUD No. 1, and Wilbarger Creek MUD No. 2 on terms and conditions similar to those contained in the Original Development Agreement, as amended; and (ii) terminated and replaced the Original Development Agreement as between the Manor, CHL, and 2010 ShadowGlen. In December 2012, SG Land Holdings acquired all of the property in the ShadowGlen development owned by 2010 ShadowGlen. In connection with that transaction and with Manor's consent, 2010 ShadowGlen assigned its interest in the Restated Development Agreement to SG Land Holdings pursuant to an "Assignment and Assumption of Development Agreement" dated effective December 21, 2012.

## THE DEVELOPER

### Role of a 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, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

### Description of the Developer

The developer currently active within the District is SG Land Holdings, a Delaware limited liability company (the "Developer"), which is owned by Southwest Shadow Holdings LLC, a Delaware limited liability company, and ColFin Shadow Investor LLC, a Delaware limited liability company. The Developer has engaged Argent Management LLC as its development manager to manage the development within the District. In addition, CHL owns approximately 5.1 acres within the District which is expected to be developed for commercial/retail purposes.

### Current Development

Development of the District commenced in May 2002, and, as of March 1, 2015, approximately 205 acres (or 51.85% of the approximately 396 developable acres within the District) had been developed with utility facilities as the single-family residential subdivisions of ShadowGlen, Sections 1A, 1B, 2A, 2B, 3A, 3B, 4A, 4B, 5, 6, 7, 8, 10, 12, 13 and 14A, encompassing a total of 713 developed single-family lots. These developed lots included 635 completed homes, 4 homes under construction (all of which were under contract to a homebuyer) and 74 vacant developed single-family lots.

### Homebuilders

According to the Developer, Ryland Homes is currently the active homebuilder within the District. The homes range in price from \$259,990 to \$290,990, with square footage ranging from 2,417 to 3,317.

### Commercial Development

The District contains approximately 11.7 acres of commercial reserves. In 2005, approximately 2.3 acres were sold to Spasco, Ltd. ("Spasco"), a Texas limited partnership, which constructed a 15,000 square foot mixed use commercial retail strip center called The Shops at ShadowGlen on this acreage. In September 2014, Spasco sold the strip center to HFS Brothers Investments LLC, a Texas limited liability company. In 2013, approximately 4.3 acres were sold to Shadowglen MOB Partners LLC, a Texas limited liability company, which constructed a 36,000 square foot medical center on this acreage that opened in the spring of 2014. CHL currently owns the remaining 5.1 acres of commercial acreage within the District.

### Utility Development Agreements

The District originally entered into two development agreements that governed the construction of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such construction through the issuance of bonds by the District – the first being a "Utility Development and Purchase Agreement" between Travis County Municipal Utility District No. 2 and ShadowGlen Residential Community, Ltd. for ShadowGlen Water, Wastewater and Drainage Facilities" dated effective as of May 2, 2002, as amended by "Amendment No. 1 to Utility Development and Purchase Agreement between Travis County Municipal Utility District No. 2 and ShadowGlen Residential Community, Ltd." dated effective as of September 12, 2002, and "Amendment No. 2 to Utility Development and Purchase Agreement" dated effective as of February 3, 2006 (collectively, the "SRCL Reimbursement Agreement"); and the second being a "Utility Development and Purchase Agreement between Travis County Municipal Utility District No. 2 and Cottonwood Holdings, Ltd. for ShadowGlen Water, Wastewater and Drainage Facilities" dated effective as of April 30, 2002, as amended by "Amendment No. 1 to Utility Development and Purchase Agreement" dated effective as of February 1, 2006 (collectively, the "CHL Reimbursement Agreement"). After 2010 ShadowGlen acquired the property originally owned by SRCL following the 2009 RFC foreclosure and intervening ownership by XIF, the District entered into a "Utility Construction Agreement [ShadowGlen – Travis County MUD No. 2]" dated effective December 5, 2012 with 2010 ShadowGlen (the "2010 ShadowGlen Reimbursement Agreement"), which was joined in by CHL, XIF, and the partners of SRCL, which had been terminated as a partnership in June 2012. Pursuant to the provisions of the 2010 ShadowGlen Reimbursement Agreement, the SRCL Reimbursement Agreement and the CHL Reimbursement Agreement were terminated in their entirety. With the consent of the District, 2010 ShadowGlen assigned its interest in the 2010 ShadowGlen Reimbursement Agreement to SG Land Holdings pursuant to an "Assignment of Utility Construction

Agreement and Consent [ShadowGlen – Travis County MUD No. 2]” dated effective December 21, 2012 when SG Land Holdings purchased 2010 ShadowGlen’s remaining property in the ShadowGlen development.

### **Agricultural Value Waiver**

SRCL and CHL previously executed agreements, which are recorded in the Real Property Records of Travis County and are covenants running with the land, waiving the right to have land located within the District classified as agricultural, open space or timberland for tax purposes. In addition, SRCL, CHL and their successors have waived the right to have their lots and houses (if any) classified as business inventory. SG Land Holdings is subject to such agreements and the agreements may not be modified without the approval of the TCEQ and are binding on purchasers of such land from each developer. See "TAXING PROCEDURES - Property Subject to Taxation by the District."

## **THE SYSTEM**

### **Regulation**

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

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

### **Water Supply and Distribution**

Metro H2O has entered into the Water Supply Contract with the four Participants to provide up to 6,010 LUEs of potable water supply capacity to the Participants. Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Water Supply Contract but has not been allotted any capacity. See “THE MASTER DISTRICT- Master Service Area.” Pursuant to an “Amended and Restated Assignment and Assumption of Capacity Rights and Obligations under Regional Water and Sewer Contracts; and Capacity Reservation Agreement” dated effective October 1, 2005 (the “Capacity Assignment”), the Participants assigned all of their rights and obligations with respect to water supply capacity under the Water Supply Contract to the Master District, which, in turn, reserved water supply capacity in favor of the Participants at full build out in the amounts set forth in the Water Supply Contract and agreed to allocate water capacity on an interim basis fairly and equitably among the Participants. The Participants have also executed the Master District Contract (see “THE MASTER DISTRICT”), pursuant to which the Master District is charged with the responsibility of constructing, financing or acquiring facilities sufficient to distribute, rechlorinate and store the potable water delivered by Metro H2O to the Participants.

Under the Water Supply Contract, as affected by the Capacity Assignment, the Master District was originally contractually obligated to purchase water capacity from Metro H2O at the time of each connection and on a quarterly basis through the payment of water LUE fees. However, pursuant to a “First Amendment to Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeastern Travis County, Texas” dated August 9, 2011 (the “Water Supply Contract Amendment”), in consideration of the payment of \$250,000 to Metro H2O, the obligation to make water LUE fee payments to Metro H2O was terminated until the number of LUEs actually connected to the water system serving the Service Area exceeds 2,610, at which time water LUE fees will be required to be paid on a connection-by-connection basis.

The Water Supply Contract, as amended, also obligates the Participants to pay Metro H2O a volumetric wholesale water rate for the water used by the Participants (the “Wholesale Water Rate”) as well as an annual rate payment (the “Annual Water Rate Payment”) by July 5th of each year. A portion of the Wholesale Water Rate and the Annual Water Rate Payment increase by three percent (3%) per year. The current Wholesale Water Rate is \$5.46 per 1,000 gallons of water delivered. The Annual Water Rate Payment for 2015 will be \$146,316.15. Under the Wholesale Water Contract Amendment, Metro H2O also has the authority to impose a surcharge for actual increases in the volumetric rate charged to Metro H2O by its supplier as well as a surcharge to recover the cost of new capital assets necessary to serve the Participants.

Pursuant to the Water Supply Contract Amendment, Metro H2O invoices the Master District for wholesale water service provided to the Participants using a take-or-pay minimum base quantity formula. Under this structure, the minimum base quantity of water for which the Participants will be charged for the year commencing March 1, 2015 is 146,951,500 gallons of water. The minimum base quantity for each year thereafter (March through February) will be the prior year’s minimum base quantity plus 90% of the amount of water used by the Participants during the prior year in excess of the minimum base quantity for that year.

#### *Metro H2O Water Supply and Transmission Facilities*

The water supplied to the Participants from Metro H2O is obtained by Metro H2O from Blue Water 130 Project, LP, a Texas limited partnership, under an “Amended and Restated Wholesale Potable Water Supply Agreement” dated April 11, 2011 (the “Blue Water Contract”). It is the District’s understanding that Metro has sufficient water capacity available under the Blue Water Contract to serve 6,010 connections within the Participants. The point of delivery for water delivered to Metro H2O under the Blue Water Contract is the 500,000 gallon elevated storage tank owned by Metro H2O adjacent to the Service Area. The facilities necessary to deliver water under the Blue Water Contract have

been constructed, and such water became available to Metro H2O (and the Participants through Metro H2O) on July 5, 2011. Under the terms of the Water Supply Contract Amendment, Metro is required to reserve capacity to and for the benefit of the Participants in the water supply available to Metro H2O under the Blue Water Contract equal to the number of LUEs paid for by or on behalf of the Participants up to 6,010 LUEs. As of January 1, 2013, 2,610 LUEs have been paid to Metro H2O by or on behalf of the Participants. The current number of connections within the Master District Service Area is approximately 1,301.

In addition, SWWC Services, Inc., the Master District's prior operator and an affiliate of Metro H2O, previously advised the Master District that there is a physical water interconnect located between the Metro H2O facilities and the City of Manor. In the past, Manor and Metro H2O have utilized the interconnect; however, the Master District has been advised that the agreement providing for the interconnect has expired, and the District makes no representation that such agreement will be renewed.

#### *Master District Distribution, Rechlorination and Storage Facilities*

The Master District has constructed a 24-inch water transmission main which distributes the water delivered by Metro H2O approximately 3.3 miles from the Metro H2O elevated storage tank, through the District and to the southern boundary of Cottonwood Creek MUD No. 1. Additionally, the Master District has constructed one chlorination facility outside the boundaries of the Master District at the beginning of the Master District's 24-inch water transmission main near the 500,000 gallon elevated storage tank owned by Metro H2O.

It is anticipated that the Master District will be required to construct one or more water storage facilities as development increases demand for water supply within the Service Area.

#### *City of Manor Emergency Water Interconnect*

The Master District and the City of Manor have entered into an "Interlocal Agreement Concerning Emergency Water Interconnect" dated effective June 6, 2014, which can provide a short-term water supply to customers within the Participants in emergency situations.

### **Wastewater Collection and Treatment**

The Participants and Metro H2O originally entered into the Wastewater Treatment Contract pursuant to which Metro H2O agreed to construct certain wastewater treatment facilities sufficient to serve up to 6,010 LUEs of wastewater from the Participants. Cottonwood Creek Water Control and Improvement District No. 3 is also a party to the Wastewater Treatment Contract but has not been allotted any capacity. Under the Wastewater Treatment Contract, Metro H2O completed construction of wastewater facilities including a 500,000 gallons per day ("gpd") wastewater treatment plant and lift station (the "Wastewater Treatment Plant"). Based upon an average daily flow of 300 gpd per LUE, the 500,000 gpd Wastewater Treatment Plant is sufficient to serve 1,667 LUEs, according to the Master District's Engineer. An expansion of the wastewater treatment plant may be required as soon as 1,667 connections have been constructed; however, current and historical flows have averaged less than 250 gpd per LUE, and the current capacity would be sufficient for 2,000 connections if the average flows do not increase. The Master District intends to finance future expansions of the Wastewater Treatment Plant through the issuance of bonds. Pursuant to the Capacity Assignment, the Participants assigned all of their rights and obligations with respect to wastewater treatment capacity under the Wastewater Treatment Contract to the Master District, which, in turn, reserved wastewater treatment capacity in favor of the Participants at full build-out in the amounts set forth in the Wastewater Treatment Contract and agreed to allocate wastewater treatment capacity on an interim basis fairly and equitably among the Participants.

When Southwest Water Company, the parent of Metro H2O, announced its intention to sell its wholesale operations in Texas, the Master District negotiated to purchase the Wastewater Treatment Plant from Metro H2O pursuant to an Asset Purchase Agreement dated November 20, 2008. The closing of such transaction occurred on December 31, 2008, at which time Metro H2O transferred ownership of the Wastewater Treatment Plant and its interest in the Wastewater Treatment Contract to the Master District. The Master District will operate and maintain the Wastewater Treatment Plant as a Master District Facility and has included the costs of the operations in its budget for the fiscal year ending September 30, 2015. The cost of operation and maintenance of the Wastewater Treatment Plant will be invoiced to each of the Participants on a monthly basis, in accordance with the Master District Contract.

Shortly after the purchase of the Wastewater Treatment Plant, the Master District experienced increased maintenance and operation costs for the Wastewater Treatment Plant. In an effort to reduce these costs, the Master District engaged Jones & Carter, Inc. to assess the Wastewater Treatment Plant and its operation and maintenance procedures and recommend appropriate changes, repairs and upgrades. The Master District has also entered into agreements with Ovivo USA, LLC, the manufacturer of the wastewater treatment technology at the Wastewater Treatment Plant, to service and replace the plant's membrane equipment and make certain upgrades to improve the performance and energy efficiency of the Wastewater Treatment Plant. After the implementation of certain improvements recommended, Jones & Carter, Inc. and Crossroads Utility Services LLC, the Master District's operator, have represented that operation of the Wastewater Treatment Plant has improved significantly.

### **Drainage System**

The storm drainage system that serves the District consists of curb and guttered streets and storm sewers that collect storm water runoff for outfall to an approximately four acre detention pond located adjacent to the District which flows into Wilbarger Creek, which, in turn, flows into the Colorado River. The facilities are designed in accordance with Travis County and Manor criteria.

**100-Year Flood Plain**

According to the Engineer, approximately 40.4 acres located within the District are located within the planned designated Flood Hazard Area as shown on the Federal Flood Insurance Administration Rate Map No. 48453C0485H.

**Water and Wastewater Operations**

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

The Board of Directors establishes rates and fees for water and sewer service, subject to change from time to time. The following schedule sets forth the rates and fees for the District's water and sewer service which have been in effect since October 1, 2014.

**Monthly Billings:**

5/8" Meter .....	\$ 45.00*
3/4" Meter .....	\$ 45.50*
Monthly Water Commodity Charge	
0-15,000 gallons .....	\$ 5.25 per 1,000 gallons
15,001+ gallons .....	\$ 7.00 per 1,000 gallons
Monthly Wastewater Commodity Charge .....	\$ 7.50 per 1,000 gallons

**Tap Connection Fees:**

Water .....	\$ 600.00 per LUE
Wastewater .....	\$ 600.00 per LUE

\* Single family residential meter includes solid waste/recycling services.

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

## 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					
	12/31/2014 <sup>(a)</sup>	9/30/2014 <sup>(b)</sup>	9/30/2013 <sup>(b)</sup>	9/30/2012 <sup>(b)</sup>	9/30/2011 <sup>(b)</sup>	9/30/2010 <sup>(b)</sup>
<b>REVENUES</b>						
Property taxes, including penalties	\$ 91,897	\$ 92,677	\$ 90,642	\$ 95,901	\$ 137,277	\$ 251,644
Service Accounts, including penalties	239,185	1,022,985	1,039,150	974,451	939,303	629,124
Connection/Inspection fees	1,785	23,250	13,990	27,625	8,650	12,919
Interest	459	1,834	2,377	2,244	6,140	11,942
Other	189	131	617	632	142	49
<b>TOTAL REVENUES</b>	<b>\$ 333,515</b>	<b>\$ 1,140,877</b>	<b>\$ 1,146,776</b>	<b>\$ 1,100,853</b>	<b>\$ 1,091,512</b>	<b>\$ 905,678</b>
<b>EXPENDITURES</b>						
Garbage Collection Fees	\$ 33,493	\$ 134,129	\$ 131,367	\$ 127,532	\$ 124,964	\$ 101,492
Repairs/Maintenance	6,557	34,429	17,164	19,709	24,347	17,416
Operations/Management Fee	19,482	76,842	70,018	67,138	66,968	65,309
Inspection/Review Fee	200	228	3,858	6,876	1,504	340
Director Fees, including payroll taxes	3,795	10,657	12,434	13,564	18,247	16,632
Legal Fees	7,943	34,083	46,788	59,191	81,141	74,329
Engineering Fees	2,717	8,612	7,289	7,946	13,591	8,452
Audit Fees	-	11,500	11,000	10,750	10,500	13,500
Bookkeeping Fees	7,900	32,350	32,000	32,000	33,750	29,300
Financial Advisor Fees	224	186	193	218	291	-
Tax Appraisal/Collection Fees	261	540	536	562	794	1,812
Insurance	400	4,376	4,968	4,635	5,987	2,720
Other Consultant Fees	-	4,500	-	9,000	-	484
Interfund Transfers <sup>(c)</sup>	197,615	856,104	842,514	776,501	799,734	730,855
Other	5,698	25,774	25,411	22,820	18,282	20,720
Capital Outlay	-	-	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 286,285</b>	<b>\$ 1,234,310</b>	<b>\$ 1,205,540</b>	<b>\$ 1,158,442</b>	<b>\$ 1,200,100</b>	<b>\$ 1,083,361</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 47,230</b>	<b>\$ (93,433)</b>	<b>\$ (58,764)</b>	<b>\$ (57,589)</b>	<b>\$ (108,588)</b>	<b>\$ (177,683)</b>
<b>Beginning Fund Balance</b>	<b>\$ 974,960</b>	<b>\$ 918,393</b>	<b>\$ 827,157</b>	<b>\$ 734,746</b>	<b>\$ 843,334</b>	<b>\$ 1,021,017</b>
<b>Plus / (Less): Fund Transfer</b>	<b>37,500</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>-</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 1,059,690</b>	<b>\$ 974,960</b>	<b>\$ 918,393</b>	<b>\$ 827,157</b>	<b>\$ 734,746</b>	<b>\$ 843,334</b>

(a) Unaudited. Through December 31, 2014. Represents 3 months of the District's current fiscal year.

(b) Audited.

(c) Interfund Transfers include the costs paid to the Master District for water supply and wastewater treatment costs.

**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**

**Travis County Municipal Utility District No. 2  
\$3,400,000  
Unlimited Tax Refunding Bonds, Series 2015  
Dated Date: April 1, 2015  
First Interest Payment Due: September 1, 2015**

Year Ending 31-Dec	Outstanding Debt	Less: Refunded Debt	Total Debt	The Bonds				Principal and Interest	Total Debt Service Requirements
				Principal (Due 9/01)	Interest		Total		
					(Due 3/01)	(Due 9/01)			
2015	\$ 603,129	\$ 70,524	\$ 532,605	\$ 25,000	\$ -	\$ 43,138	\$ 43,138	\$ 68,138	\$ 600,743
2016	605,516	141,048	464,469	25,000	51,516	51,516	103,031	128,031	592,500
2017	612,704	196,048	416,656	80,000	51,266	51,266	102,531	182,531	599,188
2018	613,816	193,573	420,244	80,000	50,466	50,466	100,931	180,931	601,175
2019	608,966	196,098	412,869	85,000	49,666	49,666	99,331	184,331	597,200
2020	613,154	198,398	414,756	90,000	48,391	48,391	96,781	186,781	601,538
2021	616,079	195,473	420,606	90,000	47,041	47,041	94,081	184,081	604,688
2022	622,754	302,548	320,206	200,000	45,691	45,691	91,381	291,381	611,588
2023	632,379	309,935	322,444	215,000	42,691	42,691	85,381	300,381	622,825
2024	635,904	311,860	324,044	220,000	39,466	39,466	78,931	298,931	622,975
2025	643,341	313,360	329,981	230,000	36,166	36,166	72,331	302,331	632,313
2026	644,479	314,435	330,044	240,000	32,716	32,716	65,431	305,431	635,475
2027	643,994	314,950	329,044	245,000	29,116	29,116	58,231	303,231	632,275
2028	647,594	314,950	332,644	250,000	25,441	25,441	50,881	300,881	633,525
2029	654,563	318,919	335,644	265,000	21,691	21,691	43,381	308,381	644,025
2030	509,856	322,206	187,650	275,000	17,550	17,550	35,100	310,100	497,750
2031	324,769	324,769	-	285,000	13,081	13,081	26,163	311,163	311,163
2032	146,650	146,650	-	120,000	8,450	8,450	16,900	136,900	136,900
2033	145,500	145,500	-	120,000	6,500	6,500	13,000	133,000	133,000
2034	149,094	149,094	-	130,000	4,550	4,550	9,100	139,100	139,100
2035	147,175	147,175	-	130,000	2,275	2,275	4,550	134,550	134,550
	<b><u>\$ 10,821,414</u></b>	<b><u>\$ 4,927,509</u></b>	<b><u>\$ 5,893,905</u></b>	<b><u>\$ 3,400,000</u></b>	<b><u>\$ 623,725</u></b>	<b><u>\$ 666,863</u></b>	<b><u>\$ 1,290,588</u></b>	<b><u>\$ 4,690,588</u></b>	<b><u>\$ 10,584,493</u></b>

**FINANCIAL STATEMENT**  
(Unaudited as of March 1, 2015)

**Assessed Value - Table 4**

2014 Certified Assessed Valuation		\$123,947,928 <sup>(a)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		
District Debt	\$ 7,880,000	
Contract Debt	<u>5,857,579</u>	
Total		\$ 13,737,579 <sup>(b)</sup>
Ratio of Gross Debt to 2014 Certified Assessed Valuation		11.08%
2014 Tax Rate		
Debt Service	\$ 0.5008	
Maintenance	0.0937	
Contract	<u>0.3800</u>	
<b>Total 2014 Tax Rate</b>		<u>\$ 0.9745</u> <sup>(c)</sup>
Debt Service Fund Balance (as of February 4, 2015)		\$ 677,994 <sup>(d)</sup>
Percentage of current tax collections (Tax Years 2001-2013)		97.21% <sup>(e)</sup>
of District: 404.11 acres		Area
	Estimated Population as of January 1, 2015 – 2,230 <sup>(e)</sup>	

- (a) Assessed valuation of the District as January 1, 2014 as certified by the Travis Central Appraisal District (“TCAD”). See “TAXING PROCEDURES.”
- (b) Includes the Bonds, excludes the Refunded Bonds. The District is a party to a contract with the Master District whereby the District is obligated to pay a pro rata share of debt service on bonds issued from time to time by the Master District to acquire, construct, purchase and maintain certain facilities to provide regional water, wastewater and drainage services to all Participants. The Master District has issued two series of new money bonds and two series of refunding bonds in the aggregate original principal amount of \$19,920,000 of which \$9,340,000 is currently outstanding. The contract debt amount reflects the District’s pro rata share (62.71% based on the 2014 Certified Assessed Valuation of \$197,636,871 of the Master District Service Area). See “THE MASTER DISTRICT – Contract Tax Bonds.”
- (c) The District levied the 2014 total tax rate at the District’s board meeting in September 2014.
- (d) Unaudited as of February 4, 2015. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (e) Based upon 3.5 residents per occupied single family home.

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

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
5/3/2003	Water, Sanitary Sewer & Drainage	\$ 38,580,000	\$ 8,855,000	\$ 29,725,000
2/7/2004	Park and Recreational Facilities	3,500,000	-	3,500,000
5/3/2003	Refunding	57,870,000 <sup>(a)</sup>	725,000 <sup>(a)</sup>	57,145,000 <sup>(a)</sup>

- (a) The proposition approved by the voters authorized the District to issue refunding bonds in an amount not to exceed one and one-half times the par amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued, which equals \$57,870,000. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds after deducting Underwriter’s discount is also counted against the District’s refunding authorization. The district has previously used \$420,000 of the total amount of refunding bonds authorized. The issuance of the Bonds uses \$305,000 of the total amount of refunding bonds authorized. After the issuance of the Bonds, the District will have used a total of \$725,000 of the District’s voted authorization of refunding bonds and, following the issuance of the Bonds, \$57,145,000 of voted authorization of refunding bonds remains unissued.

**Outstanding Bonds - Table 6**

<b>Dated Date</b>	<b>Purpose</b>	<b>Original Series</b>	<b>Original Principal Amount</b>	<b>Principal Amount Outstanding after the Issuance of the Bonds <sup>(a)</sup></b>
<b>A. New Money Bonds</b>				
11/01/04	Water, Sanitary Sewer & Drainage	2004	\$ 2,000,000	\$ -
11/01/05	Water, Sanitary Sewer & Drainage	2005	2,495,000	-
10/01/06	Water, Sanitary Sewer & Drainage	2006	2,360,000	-
08/01/10	Water, Sanitary Sewer & Drainage	2010	2,000,000	100,000
	<b>Subtotal</b>		<b>\$ 8,855,000</b>	<b>\$ 100,000</b>
<b>B. Refunding Bonds</b>				
12/01/11	Refunding	2011	\$ 4,775,000	\$ 4,380,000
04/01/15	Refunding	2015	3,400,000	3,400,000 <sup>(b)</sup>
	<b>Subtotal</b>		<b>\$ 8,175,000</b>	<b>\$ 7,780,000</b>
	<b>Total</b>		<b>\$ 17,030,000</b>	<b>\$ 7,880,000</b>

(a) Excludes the Refunded Bonds and includes the Bonds.

(b) The Bonds.

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

General Fund	\$ 1,043,529
Debt Service Fund	677,994 <sup>(b)</sup>
Capital Projects Fund	31,266

(a) Unaudited as of February 4, 2015.

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

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

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally

recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

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

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

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

## **Current Investments - Table 8**

The District, as of February 4, 2015, is invested in TexPool and Certificates of Deposit. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District

to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

<b>Investment Value as of February 4, 2015</b>	
Cash	\$ 289,707
TexPool	853,081
Certificates of Deposit	610,000
<b>Total Investments</b>	<b>\$ 1,752,788</b>

**Estimated Overlapping Debt Statement**

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

<b>Taxing Body</b>	<b>Gross Debt</b>		<b>% of Overlapping Gross Debt</b>	<b>Amount of Overlapping Gross Debt</b>
	<b>Amount</b>	<b>As of</b>		
Travis County	652,173,919	1/1/2015	0.10%	674,042
Travis County ESD No. 12	(a)	1/1/2015	0.04%	-
Travis County Healthcare District	15,070,000	1/1/2015	0.40%	60,280
Austin Community College	84,441,598	1/1/2015	5.17%	4,365,631
Manor Independent School District	246,085,516	1/1/2015	0.05%	123,043
<b>TOTAL ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 5,222,995</b>
The District <sup>(b)</sup>	\$ 13,737,579	4/1/2015	100.00%	\$ 13,737,579
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 18,960,575</b>
<b>Ratio of Estimated and Overlapping Debt to Certified 2014 Assessed Valuation</b>				<b>15.30%</b>

(a) Taxing jurisdiction with no outstanding debt.  
(b) Includes the Bonds; excludes the Refunded Bonds.

**Overlapping Taxes for 2014**

Overlapping Entity	2014 Tax Rate Per	
	\$100 Assessed Valuation Travis County	Average Tax Bill <sup>(a)</sup> Travis County
Travis County	\$0.456300	\$ 851
Travis County ESD No. 12	0.100000	187
Travis County Healthcare District	0.126400	236
Austin Community College	0.094200	176
Manor Independent School District	1.515000	2,826
The District	0.974500	1,818
<b>Total</b>	<b><u>\$3.266400</u></b>	<b><u>\$ 6,092</u></b>

(a) Based upon the 2014 average single-family home value of \$186,520 as provided by TCAD.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$119,914,816	96.45%	\$108,344,593	95.29%	\$ 101,090,862	93.72%
Vacant Lot	3,347,864	2.69%	1,255,603	1.10%	780,529	0.72%
Qualified Ag Land	-	0.00%	-	0.00%	-	0.00%
Non-Qualified Ag Land	1,537,361	1.24%	1,602,657	1.41%	1,747,966	1.62%
Rural Land, Non-Qualified	33,596	0.03%	33,596	0.03%	-	0.00%
Commercial Real Property	1,872,386	1.51%	1,795,058	1.58%	2,331,000	2.16%
Telephone Company	13,439	0.01%	14,068	0.01%	14,380	0.01%
Commercial Personal Property	622,091	0.50%	519,575	0.46%	503,705	0.47%
Residential Inventory	22,200	0.02%	2,433,669	2.14%	3,038,703	2.82%
Totally Exempt Property	19,295	0.02%	19,295	0.02%	161,520	0.15%
Less: Adjustments	(3,054,886)	-2.46%	(2,315,271)	-2.04%	(1,799,450)	-1.67%
<b>Total</b>	<b><u>\$ 124,328,162</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 113,702,843</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 107,869,215</u></b>	<b><u>100.00%</u></b>

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**Tax Collections - Table 10**

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

Tax Year	Assessed Valuation (a)	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2001	5,548,195	0.9500	52,708	37,265	70.70%	37,265	70.70%	9/30/2002 <sup>(b)</sup>
2002	1,647,459	0.9500	15,651	15,640	99.93%	15,640	99.93%	9/30/2003 <sup>(b)</sup>
2003	1,319,118	0.9500	12,532	12,532	100.00%	29,175	232.80%	9/30/2004 <sup>(b)</sup>
2004	16,278,223	0.9500	154,643	153,937	99.54%	153,937	99.54%	9/30/2005 <sup>(b)</sup>
2005	40,235,182	0.9500	382,234	380,521	99.55%	381,227	99.74%	9/30/2006 <sup>(b)</sup>
2006	74,354,358	0.9000	669,189	655,195	97.91%	656,821	98.15%	9/30/2007 <sup>(b)</sup>
2007	99,573,568	0.9000	896,162	887,579	99.04%	899,983	100.43%	9/30/2008 <sup>(b)</sup>
2008	127,815,229	0.8800	1,124,774	1,114,654	99.10%	1,112,468	98.91%	9/30/2009 <sup>(b)</sup>
2009	134,540,289	0.8800	1,183,955	1,181,046	99.75%	1,189,930	100.50%	9/30/2010 <sup>(b)</sup>
2010	119,867,425	0.9700	1,162,714	1,155,031	99.34%	1,170,507	100.67%	9/30/2011 <sup>(b)</sup>
2011	112,245,144	0.9700	1,088,778	1,083,926	99.55%	1,092,817	100.37%	9/30/2012 <sup>(b)</sup>
2012	107,838,981	0.9800	1,056,822	1,049,909	99.35%	1,052,945	99.63%	9/30/2013 <sup>(b)</sup>
2013	113,702,843	0.9800	1,115,619	1,114,610	99.91%	1,122,878	100.65%	9/30/2014 <sup>(b)</sup>
2014	123,947,928	0.9745	1,210,747	956,821	79.03%	956,821	79.03%	9/30/2015 <sup>(c)</sup>

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

(b) Audited.

(c) Unaudited. Reflects collections through December 31, 2014. Taxes were due with no penalty by January 31, 2015.

**District Tax Rates - Table 11**

Tax Rate per \$100 Assessed Valuation	2014	2013	2012	2011	2010	2009	2008	2007	2006
Debt Service	\$ 0.5008	\$ 0.5196	\$ 0.5464	\$ 0.5360	\$ 0.5089	\$ 0.3438	\$ 0.3196	\$ 0.3865	\$ 0.3340
Maintenance	0.0937	0.0804	0.0836	0.0840	0.1111	0.1862	0.2104	0.2635	0.3160
Contract	<u>0.3800</u>	<u>0.3800</u>	<u>0.3500</u>	<u>0.3500</u>	<u>0.3500</u>	<u>0.3500</u>	<u>0.3500</u>	<u>0.2500</u>	<u>0.2500</u>
<b>Total</b>	<b><u>\$ 0.9745</u></b>	<b><u>\$ 0.9800</u></b>	<b><u>\$ 0.9800</u></b>	<b><u>\$ 0.9700</u></b>	<b><u>\$ 0.9700</u></b>	<b><u>\$ 0.8800</u></b>	<b><u>\$ 0.8800</u></b>	<b><u>\$ 0.9000</u></b>	<b><u>\$ 0.9000</u></b>

**Tax Rate Limitation**

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

**Maintenance Tax**

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, and any tax bonds which may be issued in the future. At an election held on May 3, 2003, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2014 maintenance and operations tax of \$0.0937/\$100 assessed valuation.

**Principal Taxpayers - Table 12**

The following list of principal taxpayers was provided by TCAD based on the 2014, 2013 and 2012 tax rolls of the District, which reflect the appraised value of taxable property owed as of January 1, of each year shown.

Name	Type of Property	2014	2013	2012
SG Land Holdings LLC	Land and Vacant Lots	\$ 3,957,027	\$ 3,952,260	(a)
Spasco Ltd.	Commercial/Retail Strip Center	1,872,386	1,795,058	2,331,000
Shadowglen MOB Partners LLC	Medical Center	836,418	(a)	(a)
Homeowner	Home and Lot	267,506	269,193	269,193
Homeowner	Home and Lot	264,700	247,900	235,558
Homeowner	Home and Lot	262,037	246,707	(a)
Homeowner	Home and Lot	258,904	244,499	(a)
Homeowner	Home and Lot	255,850	241,175	(a)
Homeowner	Home and Lot	255,089	240,963	(a)
Homeowner	Home and Lot	253,848	239,374	273,229
Cottonwood Holdings, Ltd.	Acreage	(a)	733,596	769,578
Homeowner	Home and Lot	(a)	(a)	261,593
2010 Shadowglen LLC	Land and Vacant Lots	(a)	(a)	4,383,501
MHI Partnership Ltd.	Vacant Lots and Model Homes	(a)	(a)	553,715
Federal National Mortgage Association	Homes and Lots	(a)	(a)	315,884
<b>Total</b>		<b>\$ 8,483,765</b>	<b>\$ 8,210,725</b>	<b>\$ 9,393,251</b>
<b>Percent of Assessed Valuation</b>		<b>6.84%</b>	<b>7.22%</b>	<b>8.71%</b>

(a) Not a principal taxpayer for respective year.

**Tax Adequacy for Debt Service**

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

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2030) .....	\$608,111
\$0.52 Tax Rate on 2014 Certified Assessed Valuation of \$123,947,928 @ 95% collections produces .....	\$612,303
Maximum Requirement on the Bonds and the Outstanding Bonds (2029) .....	\$644,025
\$0.55 Tax Rate on 2014 Certified Assessed Valuation of \$123,947,928 @ 95% collections produces .....	\$647,628

**Debt Service Fund Management Index**

Debt Service Requirements for year ending 12/31/15 .....	\$600,743 <sup>(a)</sup>
Audited Debt Service Fund Balance as of 9/30/14 .....	\$165,626 <sup>(b)</sup>
2014 Tax Levy @ 95% collections produces.....	589,695 <sup>(c)</sup>
Total Available for Debt Service .....	<u>\$755,321</u>

- (a) Interest payments on the Bonds commences September 1, 2015.
- (b) Audited. Represents fund balance after all 2014 debt service requirements have been paid.
- (c) The District currently levied a 2014 debt service tax rate of approximately \$0.5008.

## TAXING PROCEDURES

### Authority to Levy Taxes

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

### Property Tax Code and County Wide Appraisal District

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

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

### Property Subject to Taxation by the District

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

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

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

*Freeport Goods and Goods-in-Transit Exemption:* Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. 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 took no action prior to April 1, 1990 to tax freeport property but has acted to tax goods-in-transit.

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

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

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

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

### **District and Taxpayer Remedies**

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

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

### **Levy and Collection of Taxes**

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

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

The qualified voters of the District have 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 2014". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish the Underwriter a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein. See "APPENDIX B - Form of Bond Counsel Opinion." Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "SALE AND DISTRIBUTION OF THE BONDS - Securities Laws," "PLAN OF FINANCING - Escrow Agreement," "THE BONDS" (except for the subcaptions "DTC Redemption Provision" and "Payment Record"), "TAXING PROCEDURES," "LEGAL MATTERS - Legal Opinions," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") to determine that the information relating to the Bonds and the Bond Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The applicable legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. Certain legal matters will be passed upon for the Underwriter by its counsel, Bracewell & Giuliani LLP, Dallas, Texas.

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

### **No-Litigation Certificate**

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

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

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

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

### **TAX MATTERS**

#### **Opinion**

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

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

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

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

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

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

The initial public offering price to be paid for one or more maturities of the Bonds 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, taxpayer's qualifying for the health insurance premium assistance credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is

acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

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

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

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of 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](http://www.emma.msrb.org).

### **Annual Reports**

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

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

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

### **Notice of Certain Events**

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an

obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

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

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

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

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

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

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

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

## **FINANCIAL ADVISOR**

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

## **OFFICIAL STATEMENT**

### **Preparation**

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

"THE DISTRICT" and "THE SYSTEM" – District Engineer; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" – Travis 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 SCHEDULE" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - McCall, Parkhurst & Horton L.L.P.

### **Consultants**

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

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

**The Auditor:** The District's financial statements for the fiscal year ended September 30, 2014 were prepared by McCall, Gibson, Swedlund, Barfoot P.L.L.C. Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2014 final audited financial statements.

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

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

### **Annual Audits**

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

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

/s/ Wilmer Roberts  
President, Board of Directors  
Travis County Municipal Utility District No. 2

/s/ Amy Pankop Geallis  
Secretary, Board of Directors  
Travis County Municipal Utility District No. 2

## PHOTOGRAPHS

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









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

The information contained in this appendix has been excerpted from the final audited financial statement of Travis County Municipal Utility District No. 2 for the fiscal year ended September 30, 2014. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
YEAR ENDED SEPTEMBER 30, 2014**

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



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2**

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

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2014**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2**

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**ANNUAL FILING AFFIDAVIT**

# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF TRAVIS

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

**TRAVIS COUNTY 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 **4th day of February, 2015**, its annual audit report for the fiscal period ended **September 30, 2014** 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)

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

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

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

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

(SEAL)

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

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

Form TCEQ-0723 (Revised 10/2003)

# **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  
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Austin, Texas 78701  
(512) 610-2209  
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Board of Directors  
Travis County Municipal  
Utility District No. 2  
Travis County, Texas

## Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Travis County Municipal Utility District No. 2 (the "District"), as of and for the year ended September 30, 2014, 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, 2014, 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 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*

McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants

February 4, 2015

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Travis County 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, 2014. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

## FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the total assigned and unassigned fund balance was \$974,960, an increase of \$56,567 from the previous fiscal year. General fund revenues decreased from \$1,146,776 in the previous fiscal year to \$1,140,877. Operating transfers increased from \$842,514 in the previous year to \$856,104 in the current fiscal year.
- *Special Revenue Fund:* Fund balance restricted for contracted Master District expenditures was unchanged for the fiscal year. The District incurred \$1,289,968 in contract charges to the Master District during the current fiscal year. Revenues increased from \$379,203 in the previous fiscal year to \$437,297 as a result of increased property tax revenues generated from an increase in the District's assessed valuation and tax rate allocated to the special revenue fund.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$172,612 in the previous fiscal year to \$165,626 in the current fiscal year. Debt service fund revenues increased from \$592,353 in the previous fiscal year to \$599,318 in the current fiscal year due to an increase in the District's assessed valuation.
- *Capital Projects Fund:* Fund balance restricted for capital projects increased from \$22,510 in the previous fiscal year to \$22,521 in the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$40,985. Net position increased from a deficit balance of \$609,249 to a deficit balance of \$568,264.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014**

**OVERVIEW OF THE DISTRICT**

The District, a political subdivision of the State of Texas, was created by order of the Texas Water Commission, a predecessor of the Texas Commission on Environmental Quality, on December 13, 1983 and confirmed pursuant to an election held within the District on August 25, 1984. The District was created to provide water, wastewater, and storm drainage facilities to serve approximately 375 acres located within its boundaries and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. Since creation, the District's Board of Directors has approved two exclusions of land from the District and four annexations of land into the District resulting in a total of approximately 404 acres. The District is located partially within the city limits of the City of Manor and partially within the extraterritorial jurisdiction of the City of Manor and entirely within Travis County, Texas. The District is located approximately ten miles northeast of the central business district of the City of Austin, lies adjacent to the city limits of Manor, and is bounded by U.S. Highway 290 on the south. The District is one of four political subdivisions, including Cottonwood Creek Municipal Utility District No. 1, Wilbarger Creek Municipal Utility District No. 1, and Wilbarger Creek Municipal Utility District No. 2 (the "Participant Districts"), created to provide water, wastewater, and storm drainage to approximately 1,514 acres located within Travis County, Texas. Under this arrangement, Wilbarger Creek Municipal Utility District No. 2 serves as the "Master District" for the purpose of coordinating the design, construction, ownership, operation, and maintenance of the water distribution and treatment, wastewater collection and treatment, drainage, and water quality facilities to serve the Participant Districts.

# TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

## 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 BASIC FINANCIAL STATEMENTS

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

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

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

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

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014**

**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)
	2014	2013	
Current and other assets	\$ 1,466,718	\$ 1,434,475	\$ 32,243
Capital assets	6,184,689	6,330,757	(146,068)
Total Assets	<u>7,651,407</u>	<u>7,765,232</u>	<u>(113,825)</u>
Current Liabilities	1,078,148	939,846	138,302
Long-term Liabilities	7,141,523	7,434,635	(293,112)
Total Liabilities	<u>8,219,671</u>	<u>8,374,481</u>	<u>(154,810)</u>
Net Investment in Capital Assets	(1,539,313)	(1,386,368)	(152,945)
Restricted	145,713	157,772	(12,059)
Unrestricted	825,336	619,347	205,989
Total Net Position	<u>\$ (568,264)</u>	<u>\$ (609,249)</u>	<u>\$ 40,985</u>

The District's net position increased from a deficit balance of \$609,249 in the previous fiscal year to a deficit balance of \$568,264 in the current fiscal year. Some of the District's assets are restricted for particular purposes, such as debt service and capital projects. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$825,336.

# TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2014

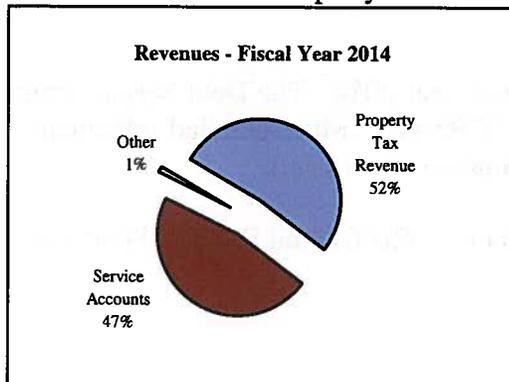
## Revenues and Expenses:

### Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2014	2013	
Property Tax	\$ 1,122,237	\$ 1,065,135	\$ 57,102
Service Accounts	1,022,985	1,039,150	(16,165)
Other	26,022	18,051	7,971
<b>Total Revenues</b>	<b>2,171,244</b>	<b>2,122,336</b>	<b>48,908</b>
Contracted Master District services	1,289,968	1,218,665	71,303
Contracted Services	245,628	222,407	23,221
Professional Services	86,545	97,077	(10,532)
Other	54,160	55,859	(1,699)
Debt Service	307,890	396,234	(88,344)
Depreciation	146,068	146,069	(1)
Amortization	-	-	-
<b>Total Expenses</b>	<b>2,130,259</b>	<b>2,136,311</b>	<b>(6,052)</b>
<b>Change in Net Position</b>	<b>40,985</b>	<b>(13,975)</b>	<b>54,960</b>
<b>Beginning Net Position</b>	<b>(609,249)</b>	<b>(595,274)</b>	<b>(13,975)</b>
<b>Ending Net Position</b>	<b>\$ (568,264)</b>	<b>\$ (609,249)</b>	<b>\$ 40,985</b>

Revenues were \$2,171,244 for the fiscal year ended September 30, 2014 while expenses were \$2,130,259. Net position increased \$40,985.

Property tax revenues in the current fiscal year totaled \$1,122,237. 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 2013 tax year (September 30, 2014 fiscal year)



were based upon a current assessed value of \$113,702,843 and a tax rate of \$0.98 per \$100 of assessed valuation. Property taxes levied for the 2012 tax year (September 30, 2013 fiscal year) were based upon an adjusted assessed value of \$107,869,215 and a tax rate of \$0.98 per \$100 of assessed valuation. The District's primary revenue sources are property taxes and service accounts.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014**

**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>		
	2014	2013	2012
Cash	\$ 449,295	\$ 447,174	\$ 424,285
Cash equivalents/investments	879,971	836,596	753,294
Receivables	171,334	180,601	157,342
<b>Total Assets</b>	<b>\$ 1,500,600</b>	<b>\$ 1,464,371</b>	<b>\$ 1,334,921</b>
Accounts payable	41,147	45,326	55,450
Refundable deposits	122,697	116,547	107,647
Interfund payables	33,882	29,896	28,710
Intergovernmental payables	135,294	148,355	98,391
<b>Total Liabilities</b>	<b>333,020</b>	<b>340,124</b>	<b>290,198</b>
Deferred inflows of Resources	4,473	10,732	6,757
Restricted	188,147	195,122	210,809
Assigned	65,936	130,058	-
Unassigned	909,024	788,335	827,157
<b>Total Fund Balance</b>	<b>1,163,107</b>	<b>1,113,515</b>	<b>1,037,966</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,500,600</b>	<b>\$ 1,464,371</b>	<b>\$ 1,334,921</b>

For the fiscal year ended September 30, 2014, the District's governmental funds reflect a combined fund balance of \$1,163,107.

This fund balance includes a \$56,567 increase in the General Fund.

The Special Revenue Fund reflects no change in fiscal year 2014. The Special Revenue Fund incurred Master District monthly charges of \$1,289,968 and received operating transfers from the General Fund of \$856,104.

The Debt Service Fund reflects a decrease of \$6,986 in fiscal year 2014. The Debt Service Fund remitted bond principal of \$305,000 and bond interest of \$295,410. More detailed information about the District's debt is presented in the *Notes to the Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$11 increase in fund balance for fiscal year 2014.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014**

**BUDGETARY HIGHLIGHTS**

The *General Fund* pays for daily operating expenditures. On September 4, 2013, the Board of Directors approved a budget including revenues of \$1,173,044 and other financing sources of \$150,000 as compared to expenses of \$386,130 and operating transfers of \$1,066,972. When comparing actual to budget, the District had a positive variance of \$186,625. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CAPITAL ASSETS**

The District's governmental activities had invested \$6,184,689 in infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	9/30/2014	9/30/2013
Capital Assets:		
Land	\$ -	\$ -
Water/Wastewater/Drainage	7,303,426	7,303,426
Less: Accumulated Depreciation	(1,118,737)	(972,669)
Total Net Capital Assets	\$ 6,184,689	\$ 6,330,757

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

**LONG TERM DEBT**

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

	Bonds Payable
Series 2006	\$ 1,365,000
Series 2010	1,830,000
Series 2011	4,380,000
Total	\$ 7,575,000

The District owes approximately \$7.6 million to bondholders. During the year, the District made principal balance payments of \$305,000. The ratio of the District's long term debt to the total taxable assessed valuation (\$113,702,843) is 6.66%. The District's estimated population, as provided by the District as of September 30, 2014, is 2,286. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2014**

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

The amount of assessed value of property within the District for the 2014 tax year (September 30, 2015 fiscal year) is approximately \$124 million and the tax rate levied was \$0.9745 per \$100 of assessed valuation. Approximately 10% of the property tax will fund general operating expenses, approximately 39% will fund contracted Master District activity and approximately 51% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2015 projects an operating fund balance decrease of \$65,936.

**REQUESTS FOR INFORMATION**

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

# **FINANCIAL STATEMENTS**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET  
SEPTEMBER 30, 2014**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Statement of Net Position
<b>ASSETS</b>							
Cash and cash equivalents:							
Cash	\$ 449,295	\$ -	\$ -	\$ -	\$ 449,295	\$ -	\$ 449,295
Cash equivalents	199,341	4,127	35,240	31,263	269,971	-	269,971
Investments	460,000	-	150,000	-	610,000	-	610,000
Receivables:							
Service accounts, net of allowance for doubtful accounts of \$ - 0 -	129,481	-	-	-	129,481	-	129,481
Taxes	376	1,663	2,434	-	4,473	-	4,473
Interest	733	-	207	-	940	-	940
Interfund	31,670	-	2,212	-	33,882	(33,882)	-
Other	2,558	-	-	-	2,558	-	2,558
Capital assets, net of accumulated depreciation:							
Water/Wastewater/Drainage System	-	-	-	-	-	6,184,689	6,184,689
<b>TOTAL ASSETS</b>	<b>\$ 1,273,454</b>	<b>\$ 5,790</b>	<b>\$ 190,093</b>	<b>\$ 31,263</b>	<b>\$ 1,500,600</b>	<b>\$ 6,150,807</b>	<b>\$ 7,651,407</b>
<b>LIABILITIES</b>							
Accounts payable	\$ 41,147	\$ -	\$ -	\$ -	\$ 41,147	\$ -	\$ 41,147
Accrued interest payable	-	-	-	-	-	24,010	24,010
Refundable deposits	122,697	-	-	-	122,697	-	122,697
Interfund payables	-	3,107	22,033	8,742	33,882	(33,882)	-
Intergovernmental payables	134,274	1,020	-	-	135,294	-	135,294
Due to developer	-	-	-	-	-	450,000	450,000
Bonds payable:							
Due within one year	-	-	-	-	-	315,000	315,000
Due after one year	-	-	-	-	-	7,131,523	7,131,523
<b>TOTAL LIABILITIES</b>	<b>298,118</b>	<b>4,127</b>	<b>22,033</b>	<b>8,742</b>	<b>333,020</b>	<b>7,886,651</b>	<b>8,219,671</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Property taxes	376	1,663	2,434	-	4,473	(4,473)	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>376</b>	<b>1,663</b>	<b>2,434</b>	<b>-</b>	<b>4,473</b>	<b>(4,473)</b>	<b>-</b>
<b>FUND BALANCE / NET POSITION</b>							
Fund balances:							
Restricted for Contracted Master District services	-	-	-	-	-	-	-
Restricted for Debt Service	-	-	165,626	-	165,626	(165,626)	-
Restricted for Capital Projects	-	-	-	22,521	22,521	(22,521)	-
Assigned for Fiscal Year 2015 deficit	65,936	-	-	-	65,936	(65,936)	-
Unassigned	909,024	-	-	-	909,024	(909,024)	-
<b>TOTAL FUND BALANCES</b>	<b>974,960</b>	<b>-</b>	<b>165,626</b>	<b>22,521</b>	<b>1,163,107</b>	<b>(1,163,107)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 1,273,454</b>	<b>\$ 5,790</b>	<b>\$ 190,093</b>	<b>\$ 31,263</b>	<b>\$ 1,500,600</b>		
<b>NET POSITION:</b>							
Net investment in capital assets						(1,539,313)	(1,539,313)
Restricted for Contracted Master District services						1,663	1,663
Restricted for debt service						144,050	144,050
Unrestricted						825,336	825,336
<b>TOTAL NET POSITION</b>						<b>\$ (568,264)</b>	<b>\$ (568,264)</b>

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
SEPTEMBER 30, 2014**

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Statement of Activities
<b>REVENUES:</b>							
Property taxes, including penalties	\$ 92,677	\$ 437,251	\$ 598,568	\$ -	\$ 1,128,496	\$ (6,259)	\$ 1,122,237
Service accounts, including penalties	1,022,985	-	-	-	1,022,985	-	1,022,985
Connection/inspection fees	23,250	-	-	-	23,250	-	23,250
Interest	1,834	46	750	11	2,641	-	2,641
Other	131	-	-	-	131	-	131
<b>TOTAL REVENUES</b>	<b>1,140,877</b>	<b>437,297</b>	<b>599,318</b>	<b>11</b>	<b>2,177,503</b>	<b>(6,259)</b>	<b>2,171,244</b>
<b>EXPENDITURES / EXPENSES:</b>							
Current:							
Contracted Master District services	-	1,289,968	-	-	1,289,968	-	1,289,968
Garbage expenditures	134,129	-	-	-	134,129	-	134,129
Repairs/maintenance	34,429	-	-	-	34,429	-	34,429
Operations / management fee	76,842	-	-	-	76,842	-	76,842
Inspection/review fees	228	-	-	-	228	-	228
Director fees, including payroll taxes	10,657	-	-	-	10,657	-	10,657
Legal fees	34,083	-	-	-	34,083	-	34,083
Engineering fees	8,612	-	-	-	8,612	-	8,612
Audit fees	11,500	-	-	-	11,500	-	11,500
Bookkeeping fees	32,350	-	-	-	32,350	-	32,350
Financial advisor fees	186	878	1,201	-	2,265	-	2,265
Tax appraisal/collection	540	2,555	3,493	-	6,588	-	6,588
Insurance	4,376	-	-	-	4,376	-	4,376
Other consulting fees	4,500	-	-	-	4,500	-	4,500
Other	25,774	-	-	-	25,774	-	25,774
Debt service:							
Principal	-	-	305,000	-	305,000	(305,000)	-
Interest	-	-	295,410	-	295,410	11,280	306,690
Fiscal agent fees and other	-	-	1,200	-	1,200	-	1,200
Bond issuance costs	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	146,068	146,068
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>378,206</b>	<b>1,293,401</b>	<b>606,304</b>	<b>-</b>	<b>2,277,911</b>	<b>(147,652)</b>	<b>2,130,259</b>
Excess / (deficiency) of revenues over expenditures/expenses	762,671	(856,104)	(6,986)	11	(100,408)	141,393	40,985
<b>OTHER FINANCING SOURCES (USES)-</b>							
Developer advance	150,000	-	-	-	150,000	(150,000)	-
Operating transfer	(856,104)	856,104	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(706,104)</b>	<b>856,104</b>	<b>-</b>	<b>-</b>	<b>150,000</b>	<b>(150,000)</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>56,567</b>	<b>-</b>	<b>(6,986)</b>	<b>11</b>	<b>49,592</b>	<b>(49,592)</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>						<b>40,985</b>	<b>40,985</b>
<b>FUND BALANCES / NET POSITION:</b>							
Beginning of the year	918,393	-	172,612	22,510	1,113,515	(1,094,703)	(609,249)
End of the year	\$ 974,960	\$ -	\$ 165,626	\$ 22,521	\$ 1,163,107	\$ (1,103,310)	\$ (568,264)

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

**NOTES TO THE  
FINANCIAL STATEMENTS**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Travis County 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 created effective December 13, 1983, by an Order of the Texas Water Commission, presently known as the Texas Commission on Environmental Quality (the "Commission") and confirmed pursuant to an election held within the District on August 25, 1984. The District was created pursuant to Article 16, Section 59 of the Texas Constitution, and operates under Chapters 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB standards which are included in the District's reporting entity. The Board of Directors held its first meeting on January 27, 1984, and the first bonds were sold December 1, 2004.

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

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

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

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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

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

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

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

- **Fund Financial Statements:**

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

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

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Special Revenue Fund** - The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The primary sources of revenues are water, wastewater and water quality service fees to end-users and contributions from the Participant Districts.
- **Debt Service Fund** - The Debt Service Fund is used to account for the resources restricted, committed or assigned for the payment of, debt principal, interest and related costs.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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

***Governmental Fund Types (continued) -***

- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned 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***

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

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

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

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

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

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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

***Budgets and Budgetary Accounting*** - A budget was adopted on September 4, 2013, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the fiscal year.

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

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

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

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

<u>Asset</u>	<u>Years</u>
Water/Wastewater/Drainage System	10 - 50

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

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

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

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

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

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

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

- ***Nonspendable***: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.
- ***Restricted***: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.
- ***Committed***: amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.
- ***Assigned***: amounts that do not meet the criteria to be classified as restricted or committed, but that are intended to be used for specific purposes. The District has assigned \$65,936 of its fund balance to cover a projected 2015 budget deficit.
- ***Unassigned***: all other spendable amounts in the General Fund.

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

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS -**

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

Fund Balances - Total Governmental Funds		\$ 1,163,107
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds-		
Capital assets	\$ 7,303,426	
Less: Accumulated depreciation	<u>(1,118,737)</u>	6,184,689
Revenue is recognized when earned in the government statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		4,473
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds:		
Bonds payable, net of deferred charge	(7,446,523)	
Developer advance	(450,000)	
Accrued interest	<u>(24,010)</u>	<u>(7,920,533)</u>
Net Position - Governmental Activities		<u><u>\$ (568,264)</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 Balances - Governmental Funds		\$ 49,592
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report:		
Bond principal payments as expenditures	\$ 305,000	
Interest expenditures in year paid	(11,280)	
Tax revenue when collected	(6,259)	
Developer advance in year received	<u>(150,000)</u>	137,461
Governmental funds do not report:		
Depreciation		<u>(146,068)</u>
Change in Net Position - Governmental Activities		<u><u>\$ 40,985</u></u>

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
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**3. CASH AND INVESTMENTS**

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

***Cash*** - At September 30, 2014, the carrying amount of the District's deposits was \$449,295 and the bank balance was \$448,672. The bank balance was covered by federal depository insurance and other pledged collateral.

***Investments*** -

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

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

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

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

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

At September 30, 2014, the District held the following investments:

Investment	Fair Market Value at 9/30/2014	Governmental Fund				Investment Rating	
		General	Special Revenue	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)	Restricted (3)		
Texpool	\$ 269,971	\$ 199,341	\$ 4,127	\$ 35,240	\$ 31,263	AAAm	Standard & Poors
Certificates of Deposit	610,000	460,000	-	150,000	-	Various	Various
	<u>\$ 879,971</u>	<u>\$ 659,341</u>	<u>\$ 4,127</u>	<u>\$ 185,240</u>	<u>\$ 31,263</u>		

(1) Restricted for Payment of contractual Master District obligations.

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

(3) Restricted for Purchase of Capital Assets.

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

*Concentration of credit risk.* In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2014, the District did not own any investments in individual securities.

*Custodial credit risk-deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2014, the District's bank deposits were fully covered by FDIC insurance and other pledged collateral.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set tax rates for the 2013 tax year on September 4, 2013.

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 2013 tax roll. The tax rate, based on total taxable assessed valuation of \$113,702,843 was \$0.98 on each \$100 valuation and was allocated as follows:

	<b><u>Tax Rate</u></b>
General Fund	\$ 0.0804
Special Revenue Fund	0.3800
Debt Service Fund	0.5196
	<b><u>\$ 0.9800</u></b>

The maximum allowable maintenance tax of \$1.50 was established by the voters on May 3, 2003.

Property taxes receivable at September 30, 2014, consisted of the following:

	<b>General Fund</b>	<b>Special Revenue Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
Current year levy	\$ 165	\$ 779	\$ 1,065	\$ 2,009
Prior years' levies	211	884	1,369	2,464
	<b><u>\$ 376</u></b>	<b><u>\$ 1,663</u></b>	<b><u>\$ 2,434</u></b>	<b><u>\$ 4,473</u></b>

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

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**5. CONTRACT TAXES**

At an election held May 3, 2003, voters authorized a contract tax on all property within the District subject to taxation. During the year ended September 30, 2014, the District levied an ad valorem contract tax at the rate of \$0.3800 per \$100 of assessed valuation, which resulted in a tax levy of \$432,966 on taxable valuation of \$113,702,843 for the 2013 tax year. This contract tax was used to pay for the District's pro rata share of operations and maintenance expenses and reserve requirements on Master District facilities as described in Note 9.

**6. INTERFUND ACCOUNTS**

A summary of interfund accounts at September 30, 2014, is as follows:

	<b>Interfund</b>	
	<b>Receivables</b>	<b>Payables</b>
<b>General Fund -</b>		
Debt Service Fund	\$ 22,033	\$ -
Special Revenue Fund	895	-
Capital Projects Fund	8,742	-
<b>Special Revenue Fund -</b>		
General Fund	-	895
Debt Service Fund	-	2,212
<b>Debt Service Fund -</b>		
General Fund	-	22,033
Special Revenue Fund	2,212	-
<b>Capital Projects Fund -</b>		
General Fund	-	8,742
	<u>\$ 33,882</u>	<u>\$ 33,882</u>

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**7. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	<b>Balance 10/1/2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance 9/30/2014</b>
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Capital assets being depreciated:				
Common & Recreation Areas	-	-	-	-
Water/Wastewater/Drainage System	7,303,426	-	-	7,303,426
Total capital assets being depreciated	7,303,426	-	-	7,303,426
Less accumulated depreciation for:				
Common & Recreation Areas	-	-	-	-
Water/Wastewater/Drainage System	(972,669)	(146,068)	-	(1,118,737)
Total accumulated depreciation	(972,669)	(146,068)	-	(1,118,737)
Total capital assets being depreciated, net of accumulated depreciation	6,330,757	(146,068)	-	6,184,689
Total capital assets, net	\$ 6,330,757	\$ (146,068)	\$ -	\$ 6,184,689

**8. BONDED DEBT**

The following is a summary of bond transactions of the District for the year ended September 30, 2014:

	<b>Combination Unlimited Tax Bonds</b>
Bonds payable at October 1, 2013	\$ 7,880,000
Bonds issued	-
Bonds retired	(305,000)
Subtotal	7,575,000
Less: Bond Discounts, net of amortization	(128,477)
Bonds payable at September 30, 2014	\$ 7,446,523

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**8. BONDED DEBT (continued) -**

Bonds payable at September 30, 2014, were comprised of the following individual issues:

**Unlimited Tax Bonds:**

\$1,365,000 - 2006 Unlimited Tax Bonds paid serially through the year 2031 at an interest rate of 4.25%. Bonds maturing on or after September 1, 2012 are redeemable on September 1, 2011 or on any date thereafter. Bonds maturing on September 1, 2026, 2028 and 2031, are subject to mandatory redemption beginning September 1, 2025, 2027 and 2029.

\$1,830,000 - 2010 Unlimited Tax Bonds paid serially through the year 2035 at interest rates which range from 4.25% to 5.125%. Bonds maturing on or after September 1, 2017 are redeemable on September 1, 2016 or on any date thereafter. Bonds maturing on September 1, 2035, are subject to mandatory redemption sinking fund requirements.

**Unlimited Tax Refunding Bonds:**

\$4,380,000 - 2011 Unlimited Tax Refunding Bonds paid serially through the year 2030 at interest rates which range from 2.00% to 4.25%. Bonds maturing on September 1 of each of the years 2019 through 2030 inclusive are redeemable on September 1, 2018 or on any date thereafter.

The annual requirement to amortize all bonded debt at September 30, 2014, including interest, is as follows:

<b>Year Ended September 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 315,000	\$ 288,129	\$ 603,129
2016	325,000	280,517	605,517
2017	340,000	272,704	612,704
2018	350,000	263,817	613,817
2019	355,000	253,967	608,967
2020 - 2024	2,040,000	1,080,271	3,120,271
2025 - 2029	2,595,000	638,972	3,233,972
2030 - 2034	1,115,000	160,869	1,275,869
2035	140,000	7,175	147,175
	<b>\$ 7,575,000</b>	<b>\$ 3,246,421</b>	<b>\$ 10,821,421</b>

\$165,626 is available in the Debt Service Fund to service the bonded debt. Bonds authorized but not issued amounted to \$29,725,000 at September 30, 2014.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES**

On March 6, 2003, the District entered into an Amended and Restated Contract for Financing and Operation of Regional Waste Collection, Treatment and Disposal Facilities; Regional Water Supply and Delivery Facilities and Regional Drainage, Including Water Quality Facilities (the "Master District Contract"). In addition to the District, parties to the Master District Contract include Wilbarger Creek Municipal Utility District No. 2 ("Wilbarger Creek MUD No. 2"), and Cottonwood Creek Municipal Utility District No. 1 ("Cottonwood Creek MUD No. 1"), and Wilbarger Creek Municipal Utility District No. 1 ("Wilbarger Creek MUD No. 1"), all together known as the "Participant Districts". This Master District Contract amended and restated a prior contract entered into between the Participant Districts that was not submitted to the voters for approval.

**General**

The District along with the other three Participant Districts were created as conservation and reclamation districts for the purpose of providing water, wastewater and drainage facilities and services to the acreage within their respective boundaries. Pursuant to an election held within the boundaries of each Participant District, each Participant District approved the Master District Contract, which designates Wilbarger Creek MUD No. 2 as the "Master District" for purposes of coordinating the design, construction, ownership, operation, and maintenance of certain regional water, wastewater, and storm drainage, including water quality, facilities to serve development within the Participants Districts. The Master District Contract also authorizes the Master District to issue contract tax bonds to acquire, purchase, construct and maintain Master District facilities to serve the Participants Districts. The Master District will own and operate the Master District facilities.

Each of the Participant Districts has executed the Master District Contract with the Master District and obtained the approval of the Master District Contract from the voters of each Participant District at elections held separately within the boundaries of each Participant District. The Master District Contract requires all Participant Districts to pay a pro rata share of debt service on the Master District bonds, based upon each Participant District's assessed valuation as a percentage of the total certified assessed valuation in the Master District's service area. Each Participant District is obligated to pay its pro rata share of the annual debt service payments from the proceeds of an annual ad valorem contract tax which is not limited as to rate or amount which includes the charges and costs of paying agents, registrars, and trustees utilized in connection with the Master District bonds, the principal, interest and redemption requirements of the Master District bonds and all amounts required to establish and maintain funds established under any related bond resolution or trust indenture. Each Participant District's pro rata share of debt service requirements will be calculated annually by the Master District; however, the levy of a contract tax or other available means of payment is the sole responsibility of each Participant District for the purpose of paying its pro rata share of debt service on the Master District's bonds. The Master District Contract also provides for operation and maintenance costs for facilities constructed or acquired pursuant to the Contract; duties of the parties; establishment and maintenance of funds; assignment; arbitration; amendments; force majeure; insurance; and other provisions.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued)**

**Master District Service Area**

The chart below more completely describes the Participant Districts, including each Participant District's acreage and projected ultimate living unit equivalents ("LUEs") based on current land use plans.

Participant	Acreage <sup>(a)</sup>	Existing LUEs <sup>(b)</sup>	Projected Ultimate LUEs <sup>(c)</sup>
The District	404.10	713	1,247
Cottonwood Creek MUD No. 1	417.70	391	2,216
Wilbarger Creek MUD No. 1	300.40	137	1,555
Wilbarger Creek MUD No. 2	<u>392.10</u>	-	<u>1,449</u>
<b>Sub-Total</b>	1,514.30	1,241	6,467
Park & Irrigation		<u>10</u>	<u>100</u>
<b>Total</b>	<u><b>1,514.30</b></u>	<u><b>1,251</b></u>	<u><b>6,567</b></u>

(a) Gross acreage includes all easements, rights-of-way and any other undevelopable acreage.

(b) As of September 30, 2014.

(c) Provided by the Developers and represents the existing land use plan. The District makes no representation that property within the Master District or within the Participant Districts will develop as shown above.

The Participant Districts and Metro H2O, Ltd. ("Metro") originally entered into (i) an "Amended and Restated Regional Sewage Disposal Capacity and Services Agreement for a Portion of Northeastern Travis County, Texas" (the "Wastewater Treatment Contract") whereby Metro agreed to construct certain wastewater treatment facilities sufficient to serve up to 6,010 LUEs of wastewater from the Participant Districts; and (ii) an "Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeastern Travis County, Texas" (the "Water Supply Contract") whereby Metro agreed to provide up to 6,010 LUEs of potable water supply capacity to the Participant Districts. Pursuant to an "Assignment and Assumption of Rights and Obligations under Regional Water and Sewer Contracts; Operations Agreement; and Capacity Reservation Agreement" dated effective October 1, 2005 (the "Capacity Assignment"), the Participant Districts assigned all of their rights and obligations with respect to wastewater treatment capacity under the Wastewater Treatment Contract and water supply capacity under the Water Supply Contract to the Master District, which, in turn, reserved wastewater treatment capacity and water supply capacity in favor of the Participants at full build-out in the amounts set forth in the Wastewater Treatment Contract and will allocate such capacity on an interim basis fairly and equitably among the Participant Districts.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued)**

Under the Wastewater Treatment Contract, Metro completed construction of a 500,000 gallons per day ("gpd") wastewater treatment plant and lift station (the "Wastewater Treatment Plant"). The Master District subsequently negotiated to purchase the Wastewater Treatment Plant from Metro pursuant to an Asset Purchase Agreement dated November 20, 2008. The closing of such transaction occurred on December 31, 2008, at which time Metro transferred ownership of the Wastewater Treatment Plant and its interest in the Wastewater Treatment Contract to the Master District. The Master District intends to finance future expansions of the Wastewater Treatment Plant through the issuance of bonds. Therefore, no further LUE Fees will be charged for wastewater treatment capacity under the Wastewater Treatment Contract.

Under the Water Supply Contract, as affected by the Capacity Assignment, the Master District was originally contractually obligated to purchase water capacity from Metro at the time of each connection and on a quarterly basis through the payment of water LUE fees. However, pursuant to a "First Amendment Amended and Restated Regional Water Capacity and Supply Agreement for a Portion of Northeastern Travis County, Texas" dated August 9, 2011, (the "Water Supply Contract Amendment"), in consideration of the payment of \$250,000 to Metro, the obligation to make water LUE fee payments to Metro has terminated until such time as the number of LUEs actually connected to the water system serving the Master District's service area exceeds 2,610, at which point water LUE fees are required to be paid on a connection by connection basis.

The currently estimated 6,567 LUEs projected to be developed within the Participant Districts are in excess of the 6,010 LUEs currently reserved for the Participant Districts under the Water Supply Contract and the Wastewater Treatment Contract. The Participant Districts expect to commence negotiations with the Master District, with respect to the Wastewater Treatment Contract, and with Metro, with respect to the Water Supply Contract, regarding amending these contracts to increase the existing LUE capacities.

The Master District facilities constructed or acquired to date have been acquired or constructed with funds provided by the Developers and proceeds of the Master District's Series 2006 and Series 2008 Bonds. Future water LUE Fee payments required under the Water Supply Contract, as amended, are expected to be paid or reimbursed from the proceeds of future unlimited contract tax bonds issued by the Master District.

**TRAVIS COUNTY  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

The chart below further describes the Participant Districts and their respective pro rata share of the Bonds based upon their certified 2014 Assessed Valuation.

Participant	2014 Certified Assessed Valuation <sup>(a)</sup>	Pro Rata Share Of Master District Debt	Pro Rata Share of Average Annual Debt of \$775,268 <sup>(b)</sup>
The District	\$ 124,328,162	62.8%	\$ 486,588
Cottonwood Creek MUD No. 1	46,941,242	23.7%	183,716
Wilbarger Creek MUD No. 2	3,710,059	1.9%	14,520
Wilbarger Creek MUD No. 1	23,109,426	11.6%	90,444
	<u>\$ 198,088,889</u>	<u>100%</u>	<u>\$ 775,268</u>

(a) Assessed valuations as of January 1, 2014 as certified by the Appraisal District.

(b) Preliminary; subject to change.

The Master District owns and operates the Master District facilities. Each Participant District within the Master District service area (including the Master District in its capacity as provider of internal water distribution, wastewater collection and storm drainage to serve the acreage within its boundaries) will own the internal water distribution, wastewater collection and storm drainage lines within its boundaries. Additionally, the Participant Districts will operate, maintain and provide retail billing and collection for their respective internal facilities. The internal facilities have been or are expected to be financed with unlimited tax bonds sold by each of the Participant Districts, including the Master District in its role as Participant District. It is anticipated that the Master District facilities will be acquired or constructed in stages to meet the needs of a continually expanding population within the Master District service area. In the event that the Master District fails to meet its obligations to provide Master District facilities as required by the Master District Contract, each Participant District has the right pursuant to the Master District Contract to design, acquire, construct, or expand the Master District facilities needed to provide service to each Participant District, and convey such Master District Facilities to the Master District in consideration of payment by the Master District of the actual reasonable necessary capital costs expended by each Participant District for such Master District facilities.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
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**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

Each Participant District is further obligated to pay monthly charges to the Master District for water and sewer services rendered pursuant to the Master District Contract (“Monthly Charge”). The Monthly Charges to be paid by each Participant District to the Master District will be used to pay each Participant District’s share of operation and maintenance costs and to provide for an operation and maintenance reserve equal to three months of operation and maintenance costs or such other amount as determined by the Master District’s financial advisor. For fiscal year 2013, the Master District’s financial advisor recommended maintenance of a three-month operation and maintenance reserve set aside in a separate fund by the Master District, as well as maintenance of funds equal to approximately two months’ budgeted expenses in the Master District’s general fund. Each Participant District’s share of operation and maintenance costs and reserve requirements is calculated by the Master District based upon the following categories of costs: (i) direct costs, including LUE fee payments and other costs directly incurred by the Participant District; (ii) volume-related costs, including actual usage fees related to water supply and wastewater collection and treatment; and (iii) all other costs, including administrative costs.

Pursuant to the Master District Contract, each Participant District is obligated to establish and maintain rates, fees and charges for services provided by each Participant District’s water distribution system and wastewater collection system, together with taxes levied and funds received from any other lawful sources, sufficient at all times to pay each Participant District’s operation and maintenance costs, and each Participant District’s obligations pursuant to the Master District Contract, including each Participant District’s pro rata share of the Master District’s debt service requirements and monthly charges. All sums payable by each Participant District to the Master District pursuant to the Master District Contract are to be paid without set off, counterclaim, abatement, suspension or diminution. If any Participant District fails to pay its share of these costs in a timely manner, the Master District Contract provides that the Master District shall be entitled to withhold, in whole or in part, any reservation or allocation of capacity in the Master District’s facilities by such Participant District in addition to the Master District’s other remedies pursuant to the Master District Contract. Under certain conditions the Master District may, with the consent of all Participant Districts, extend the Master District service area and provide services to other parties who will become Participant Districts and agree to assume their pro rata share of the bonded indebtedness of the Master District facilities in the same manner as the existing Participant Districts. In addition, the Master District may, with the consent of all Participant Districts, provide services to others as long as the providing of such services does not impair the right of a Participant District to receive service from the Master District.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2014**

**9. FINANCING AND OPERATION OF REGIONAL FACILITIES (continued) –**

*Transaction Summary – Master District Operations & Maintenance*

Transactions for the year ended September 30, 2014, are summarized as follows:

	Receivable/ (Payable)	Current Fiscal Year		Receivable/ (Payable)
	Balance,			Balance,
	10/1/2013	Billings	Payments	9/30/2014
The District	\$ 146,886	\$ 856,104	\$ (870,615)	\$ 132,375
Cottonwood Creek MUD No. 1	59,870	442,406	(452,694)	49,582
Wilbarger Creek MUD No. 1	29,567	190,270	(196,018)	23,819
Wilbarger Creek MUD No. 2	11,245	46,288	(54,292)	3,241
	<u>\$ 247,568</u>	<u>\$ 1,535,068</u>	<u>\$ (1,573,619)</u>	<u>\$ 209,017</u>

*Transaction Summary – Master District Debt Service*

Transactions for the year ended September 30, 2014, are summarized as follows:

	Receivable/ (Payable)	Current Fiscal Year		Receivable/ (Payable)
	Balance,			Balance,
	10/1/2013	Billings	Payments	9/30/2014
The District	\$ 1,469	\$ 433,864	\$ (434,313)	\$ 1,020
Cottonwood Creek MUD No. 1	(17,860)	168,063	(148,171)	2,032
Wilbarger Creek MUD No. 1	161	76,138	(75,909)	390
Wilbarger Creek MUD No. 2	1	12,749	(12,802)	(52)
	<u>\$ (16,229)</u>	<u>\$ 690,814</u>	<u>\$ (671,195)</u>	<u>\$ 3,390</u>

**10. COMMITMENTS AND CONTINGENCIES**

The developers of the land within the District have 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 developers by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality, or from operations. On May 3, 2003, a bond election held within the District, voters approved the issuance of \$38,580,000 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. On February 7, 2004, voters authorized a total of \$3,500,000 for park and recreational facilities. As of September 30, 2014, the District has issued \$8,855,000 of Unlimited Tax Bonds to reimburse developers.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
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**11. RISK MANAGEMENT**

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

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

**12. DEFICIT IN NET INVESTMENT IN CAPITAL ASSETS**

Net investment in capital assets had a deficit balance of \$1,539,313 at September 30, 2014. This is primarily attributable to capitalized interest, bond proceeds transferred to the General Fund and depreciation/amortization expense associated with the District's bond issues.

**13. DEVELOPER FUNDING AGREEMENT**

The District and 2010 ShadowGlen, LLC ("2010 ShadowGlen") entered into a Developer Funding Agreement (the "Agreement") effective October 1, 2012. The Agreement called for 2010 ShadowGlen to advance \$150,000 to the District during the 2014 fiscal year to cover a portion of the District's operations and maintenance costs. 2010 ShadowGlen subsequently sold its property within the District to SG Land Holdings LLC ("SG Land Holdings") and, in connection with such sale, assigned its interest in the Agreement to SG Land Holdings. The District and SG Land Holdings also executed an additional Developer Funding Agreement effective October 1, 2014, calling for SG Land Holdings to advance another \$150,000 to the District during the 2015 fiscal year. Any reimbursements to SG Land Holdings for these advances are contingent on a future bond sale.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
SEPTEMBER 30, 2014**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 92,677	\$ 89,983	\$ 2,694
Service accounts	1,022,985	1,050,511	(27,526)
Connection/inspection fees	23,250	30,150	(6,900)
Interest	1,834	1,800	34
Other	131	600	(469)
<b>TOTAL REVENUES</b>	<u>1,140,877</u>	<u>1,173,044</u>	<u>(32,167)</u>
<b>EXPENDITURES:</b>			
Current:			
Garbage expenditures	134,129	134,669	540
Repairs/maintenance	34,429	21,600	(12,829)
Operations / management fee	76,842	77,851	1,009
Inspection/review fees	228	2,250	2,022
Director fees, including payroll taxes	10,657	11,672	1,015
Legal fees	34,083	55,000	20,917
Engineering fees	8,612	10,000	1,388
Audit fees	11,500	11,500	-
Bookkeeping fees	32,350	32,000	(350)
Financial advisor fees	186	287	101
Tax appraisal/collection	540	1,600	1,060
Insurance	4,376	4,900	524
Other consulting fees	4,500	-	(4,500)
Other	25,774	22,801	(2,973)
<b>TOTAL EXPENDITURES</b>	<u>378,206</u>	<u>386,130</u>	<u>7,924</u>
Excess / (deficiency) of revenues over expenditures	<u>762,671</u>	<u>786,914</u>	<u>(24,243)</u>
<b>OTHER FINANCING SOURCES (USES)-</b>			
Developer advance	150,000	150,000	-
Operating transfer	(856,104)	(1,066,972)	210,868
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(706,104)</u>	<u>(916,972)</u>	<u>210,868</u>
<b>NET CHANGE IN FUND BALANCE</b>	56,567	<u>\$ (130,058)</u>	<u>\$ 186,625</u>
Beginning of the year	<u>918,393</u>		
End of the year	<u>\$ 974,960</u>		

**TEXAS SUPPLEMENTARY  
INFORMATION**



**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2014**

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

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

**2. Retail Service Providers**

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

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	\$ 45.00	N/A	N	\$ 5.25	0 to 15,000 gallons
WASTEWATER:	\$ -	N/A	N	\$ 7.00	Over 15,000 gallons
SURCHARGE:	\$ -	-	-	\$ -	per 1,000 gallons

District employs winter averaging for wastewater usage?      Yes       No

Total charges per 10,000 gallons usage:      Water      \$ 97.50      Wastewater      \$ 75.00

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

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	-	-	1	-
< 3/4"	644	640	1	640
1"	2	2	2.5	5
1 1/2"	-	-	5	-
2"	11	11	8	88
3"	1	-	15	-
4"	-	-	25	-
6"	-	-	50	-
8"	-	-	80	-
10"	-	-	115	-
Total Water	658	653		733
Total Wastewater	632	630	1	630

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2014**

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

Gallons pumped into system: \_\_\_\_\_<sup>(1)</sup>  
Gallons billed to customers: \_\_\_\_\_ 67,565

<b>Water Accountability Ratio</b> (Gallons billed / Gallons Pumped) (1)
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**4. Standby Fees (authorized only under TWC Section 49.231):**

Does the District assess standby fees? Yes  No

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

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

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

**5. Location of District**

County(ies) in which district is located: \_\_\_\_\_ Travis

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: \_\_\_\_\_ City of Manor

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 Manor

Are Board members appointed by an office outside the district?

Yes  No

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

<sup>(1)</sup> District services provided by Wilbarger Creek M.U.D. No. 2 (Master District).

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-2. GENERAL FUND EXPENDITURES  
SEPTEMBER 30, 2014**

Personnel Expenditures (including benefits)	\$	-
Professional Fees:		
Auditing		11,500
Legal		34,083
Engineering		8,612
Financial Advisor		186
Purchased Services For Resale-		
Bulk Water and Wastewater Purchases		-
Contracted Services:		
Bookkeeping		32,350
General Manager		76,842
Appraisal District		401
Tax Collector		139
Other Contracted Services		4,728
Utilities		
		-
Repairs and Maintenance		
		34,429
Administrative Expenditures:		
Directors' Fees		10,657
Office Supplies		-
Insurance		4,376
Other Administrative Expenditures		25,774
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		-
Tap Connection Expenditures		
		-
Solid Waste Disposal		
		134,129
Fire Fighting		
		-
Parks and Recreation		
		-
Other Expenditures		
		-
<b>TOTAL EXPENDITURES</b>	<b>\$</b>	<b>378,206</b>

Number of persons employed by the District:

Full-Time

Part-Time

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-3. TEMPORARY INVESTMENTS  
SEPTEMBER 30, 2014**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b>General Fund:</b>					
State Investment Pool	XXX0001	Varies	N/A	\$ 199,341	\$ -
Certificate of Deposit	XXX9902	0.40%	10/9/2014	200,000	380
Certificate of Deposit	XXX3171	0.45%	11/10/2014	60,000	113
Certificate of Deposit	XXX5236	0.50%	11/3/2014	200,000	240
Total				659,341	733
<b>Special Revenue Fund-</b>					
State Investment Pool	XXX0002	Varies	N/A	4,127	-
Total				4,127	-
<b>Debt Service Fund:</b>					
State Investment Pool	XXX0003	Varies	N/A	35,240	-
Certificate of Deposit	XXX0154	0.30%	10/14/2014	150,000	207
Total				185,240	207
<b>Capital Projects Fund-</b>					
State Investment Pool	XXX0005	Varies	N/A	31,263	-
Total				31,263	-
Total - All Funds				\$ 879,971	\$ 940

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-4. TAXES LEVIED AND RECEIVABLE  
SEPTEMBER 30, 2014**

	<b>Maintenance Taxes</b>	<b>Contract Taxes</b>	<b>Debt Service Taxes</b>
<b>Taxes Receivable, Beginning of Year:</b>	\$ 954	\$ 3,849	\$ 5,929
2013 Original Tax Levy, net of adjustments	91,609	432,966	592,044
Total to be accounted for	<u>92,563</u>	<u>436,815</u>	<u>597,973</u>
Tax collections:			
Prior years	743	2,965	4,560
Current year	91,444	432,187	590,979
Total collections	<u>92,187</u>	<u>435,152</u>	<u>595,539</u>
<b>Taxes Receivable, End of Year</b>	<u>\$ 376</u>	<u>\$ 1,663</u>	<u>\$ 2,434</u>
<b>Taxes Receivable, By Years:</b>			
2012 and before	\$ 211	\$ 884	\$ 1,369
2013	165	779	1,065
<b>Taxes Receivable, End of Year</b>	<u>\$ 376</u>	<u>\$ 1,663</u>	<u>\$ 2,434</u>

	<u>2013</u> (a)	<u>2012</u> (a)	<u>2011</u> (a)	<u>2010</u> (a)
<b>Property Valuations:</b>				
Land and improvements	<u>\$ 113,702,843</u>	<u>\$ 107,869,215</u>	<u>\$ 112,412,751</u>	<u>\$ 119,867,425</u>
<b>Total Property Valuations</b>	<u>\$ 113,702,843</u>	<u>\$ 107,869,215</u>	<u>\$ 112,412,751</u>	<u>\$ 119,867,425</u>
<b>Tax Rates per \$100 Valuation:</b>				
Contract tax rates	\$ 0.3800	\$ 0.3500	\$ 0.3500	\$ 0.3500
Debt Service tax rates	0.5196	0.5464	0.5360	0.5089
Maintenance tax rates	<u>0.0804</u>	<u>0.0836</u>	<u>0.0840</u>	<u>0.1111</u>
<b>Total Tax Rates per \$100 Valuation</b>	<u>\$ 0.9800</u>	<u>\$ 0.9800</u>	<u>\$ 0.9700</u>	<u>\$ 0.9700</u>
<b>Original Tax Levy</b>	<u>\$ 1,116,323</u>	<u>\$ 1,057,118</u>	<u>\$ 1,090,404</u>	<u>\$ 1,183,748</u>
<b>Percent of Taxes Collected to Taxes Levied **</b>	<u>99.8%</u>	<u>99.9%</u>	<u>99.9%</u>	<u>100.0%</u>
<b>Maximum Maintenance Tax Rate Approved by Voters:</b>	<u>\$ 1.50 on 5/3/2003</u>			

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

(a) Valuations are provided by the appropriate Appraisal District as of October 27, 2014. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed in the District's bond offering documents or the District's annual bond disclosure filings.

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2014**

Fiscal Year Ending	Unlimited Tax Bonds Series 2006			Unlimited Tax Bonds Series 2010			Unlimited Tax Refunding Bonds Series 2011			Annual Requirements for All Series		
	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due	Interest Due	Total
2015	\$ -	\$ 58,013	\$ 58,013	\$ 50,000	\$ 87,660	\$ 137,660	\$ 265,000	\$ 142,456	\$ 407,456	\$ 315,000	\$ 288,129	\$ 603,129
2016	-	58,013	58,013	50,000	85,348	135,348	275,000	137,156	412,156	325,000	280,517	605,517
2017	-	58,013	58,013	55,000	83,035	138,035	285,000	131,656	416,656	340,000	272,704	612,704
2018	-	58,013	58,013	55,000	80,560	135,560	295,000	125,244	420,244	350,000	263,817	613,817
2019	-	58,013	58,013	60,000	78,085	138,085	295,000	117,869	412,869	355,000	253,967	608,967
2020	-	58,013	58,013	65,000	75,385	140,385	305,000	109,756	414,756	370,000	243,154	613,154
2021	-	58,013	58,013	65,000	72,460	137,460	320,000	100,606	420,606	385,000	231,079	616,079
2022	105,000	58,013	163,013	70,000	69,535	139,535	230,000	90,206	320,206	405,000	217,754	622,754
2023	115,000	53,550	168,550	75,000	66,385	141,385	240,000	82,444	322,444	430,000	202,379	632,379
2024	120,000	48,663	168,663	80,000	63,198	143,198	250,000	74,044	324,044	450,000	185,905	635,905
2025	125,000	43,563	168,563	85,000	59,798	144,798	265,000	64,981	329,981	475,000	168,342	643,342
2026	130,000	38,250	168,250	90,000	56,185	146,185	275,000	55,044	330,044	495,000	149,479	644,479
2027	140,000	32,725	172,725	90,000	52,225	142,225	285,000	44,044	329,044	515,000	128,994	643,994
2028	145,000	26,775	171,775	95,000	48,175	143,175	300,000	32,644	332,644	540,000	107,594	647,594
2029	155,000	20,613	175,613	100,000	43,306	143,306	315,000	20,644	335,644	570,000	84,563	654,563
2030	160,000	14,025	174,025	110,000	38,181	148,181	180,000	7,650	187,650	450,000	59,856	509,856
2031	170,000	7,225	177,225	115,000	32,544	147,544	-	-	-	285,000	39,769	324,769
2032	-	-	-	120,000	26,650	146,650	-	-	-	120,000	26,650	146,650
2033	-	-	-	125,000	20,500	145,500	-	-	-	125,000	20,500	145,500
2034	-	-	-	135,000	14,094	149,094	-	-	-	135,000	14,094	149,094
2035	-	-	-	140,000	7,175	147,175	-	-	-	140,000	7,175	147,175
	<b>\$ 1,365,000</b>	<b>\$ 749,493</b>	<b>\$ 2,114,493</b>	<b>\$ 1,830,000</b>	<b>\$ 1,160,484</b>	<b>\$ 2,990,484</b>	<b>\$ 4,380,000</b>	<b>\$ 1,336,444</b>	<b>\$ 5,716,444</b>	<b>\$ 7,575,000</b>	<b>\$ 3,246,421</b>	<b>\$ 10,821,421</b>

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
SEPTEMBER 30, 2014**

	<b>Bond Issues</b>			<b>Total</b>
	<b>Series 2006</b>	<b>Series 2010</b>	<b>Series 2011</b>	
Interest Rate	4.25%	4.25% - 5.125%	2.00% - 4.25%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2031	9/1/2035	9/1/2030	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 1,365,000	\$ 1,875,000	\$ 4,640,000	\$ 7,880,000
Bonds Sold During the Current Fiscal Year	-	-	-	-
Refunded During the Current Fiscal Year	-	-	-	-
Retirements During the Current Fiscal Year-Principal	-	(45,000)	(260,000)	(305,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 1,365,000</u>	<u>\$ 1,830,000</u>	<u>\$ 4,380,000</u>	<u>\$ 7,575,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 58,012</u>	<u>\$ 89,742</u>	<u>\$ 147,656</u>	<u>\$ 295,410</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Park &amp; Recreation</u>	<u>Refunding Bonds</u>	
Amount Authorized by Voters	\$ 38,580,000	\$ 3,500,000	\$ 57,870,000	
Amount Issued	<u>8,855,000</u>	<u>-</u>	<u>420,000</u>	
Remaining To Be Issued	<u>\$ 29,725,000</u>	<u>\$ 3,500,000</u>	<u>\$ 57,450,000</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, 2014: \$ 185,240

Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt: \$ 515,306

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS  
SEPTEMBER 30, 2014**

	Amounts					Percent of Fund Total Revenues				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
<b>GENERAL FUND REVENUES:</b>										
Property taxes, including penalties	\$ 92,677	\$ 90,642	\$ 95,901	\$ 137,277	\$ 251,644	7.2%	7.0%	7.7%	12.6%	27.8%
Service revenues	1,022,985	1,039,150	974,451	939,303	629,124	79.3%	80.0%	77.8%	86.0%	69.5%
Tap connection / inspection fees	23,250	13,990	27,625	8,650	12,919	1.8%	1.1%	2.2%	0.8%	1.4%
Interest and other	1,834	2,377	2,244	6,140	11,942	0.1%	0.2%	0.2%	0.6%	1.3%
Miscellaneous	131	617	632	142	49	0.0%	0.1%	0.1%	-	-
Developer advance	150,000	150,000	150,000	-	-	11.6%	11.6%	12.0%	-	-
<b>TOTAL GENERAL FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>1,290,877</b>	<b>1,296,776</b>	<b>1,250,853</b>	<b>1,091,512</b>	<b>905,678</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>GENERAL FUND EXPENDITURES:</b>										
Current:										
Garbage expenditures	134,129	131,367	127,532	124,964	101,492	10.4%	10.1%	10.2%	11.4%	11.2%
Repairs/maintenance	34,429	17,164	19,709	24,347	17,416	2.7%	1.3%	1.6%	2.2%	1.9%
Operations / management fee	76,842	70,018	67,138	66,968	65,309	6.0%	5.4%	5.4%	6.1%	7.2%
Inspection/review fees	228	3,858	6,876	1,504	340	0.0%	0.3%	0.5%	0.1%	-
Director fees, including payroll taxes	10,657	12,434	13,564	18,247	16,632	0.8%	1.0%	1.1%	1.7%	1.8%
Legal fees	34,083	46,788	59,191	81,141	74,329	2.6%	3.6%	4.7%	7.4%	8.2%
Engineering fees	8,612	7,289	7,946	13,591	8,452	0.7%	0.6%	0.6%	1.2%	0.9%
Audit fees	11,500	11,000	10,750	10,500	13,500	0.9%	0.8%	0.9%	1.0%	1.5%
Bookkeeping fees	32,350	32,000	32,000	33,750	29,300	2.5%	2.5%	2.6%	3.1%	3.2%
Financial advisor fees	186	193	218	291	484	0.0%	-	-	-	0.1%
Tax appraisal/collection	540	536	562	794	1,812	0.0%	-	-	0.1%	0.2%
Insurance	4,376	4,968	4,635	5,987	2,720	0.3%	0.4%	0.4%	0.5%	0.3%
Other	30,274	25,411	31,820	18,282	20,720	2.3%	2.0%	2.5%	1.7%	2.3%
Operating transfer	856,104	842,514	776,501	799,734	730,855	66.4%	65.0%	62.1%	73.4%	80.7%
Capital outlay	-	-	-	-	-	-	-	-	-	-
<b>TOTAL GENERAL FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>1,234,310</b>	<b>1,205,540</b>	<b>1,158,442</b>	<b>1,200,100</b>	<b>1,083,361</b>	<b>95.6%</b>	<b>93.0%</b>	<b>92.6%</b>	<b>109.9%</b>	<b>119.5%</b>
<b>EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES &amp; OTHER FINANCING SOURCES OVER / (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ 56,567</b>	<b>\$ 91,236</b>	<b>\$ 92,411</b>	<b>\$ (108,588)</b>	<b>\$ (177,683)</b>	<b>4.4%</b>	<b>7.0%</b>	<b>7.4%</b>	<b>(9.9)%</b>	<b>(19.5)%</b>
<b>DEBT SERVICE FUND REVENUES:</b>										
Property taxes, including penalties	\$ 598,568	\$ 591,498	\$ 607,757	\$ 615,566	\$ 463,622	99.9%	99.9%	64.0%	99.5%	80.5%
Interest	750	855	1,288	2,806	2,627	0.1%	0.1%	0.1%	0.5%	0.5%
Bond proceeds, net	-	-	341,471	-	60,000	-	-	35.9%	-	10.4%
Transfers - Internal activities	-	-	-	-	50,000	-	-	-	-	8.6%
<b>TOTAL DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>599,318</b>	<b>592,353</b>	<b>950,516</b>	<b>618,372</b>	<b>576,249</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>DEBT SERVICE FUND EXPENDITURES:</b>										
Tax appraisal/collection	3,493	3,501	3,587	3,635	3,229	0.6%	0.6%	0.4%	0.6%	0.6%
Financial advisor fees	1,201	1,263	1,390	1,332	894	0.2%	0.2%	0.1%	0.2%	0.2%
Bond principal	305,000	290,000	315,000	220,000	170,000	50.9%	49.1%	33.2%	35.6%	29.5%
Bond interest	295,410	306,804	275,135	390,386	294,980	49.3%	51.8%	28.9%	63.1%	51.2%
Fiscal agent fees and other	1,200	6,501	1,800	800	1,600	0.2%	1.1%	0.2%	0.1%	0.3%
Bond issuance expenditures	-	-	332,186	-	60,000	-	-	34.9%	-	10.4%
<b>TOTAL DEBT SERVICE FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>606,304</b>	<b>608,069</b>	<b>929,098</b>	<b>616,153</b>	<b>530,703</b>	<b>101.2%</b>	<b>102.8%</b>	<b>97.7%</b>	<b>99.6%</b>	<b>92.2%</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE REVENUES &amp; OTHER FINANCING SOURCES OVER / (UNDER) EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ (6,986)</b>	<b>\$ (15,716)</b>	<b>\$ 21,418</b>	<b>\$ 2,219</b>	<b>\$ 45,546</b>	<b>(1.2)%</b>	<b>(2.8)%</b>	<b>2.3%</b>	<b>0.4%</b>	<b>7.8%</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>653</b>	<b>631</b>	<b>631</b>	<b>607</b>	<b>612</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>630</b>	<b>623</b>	<b>623</b>	<b>606</b>	<b>601</b>					

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2014**

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

District Business Telephone Number: (512) 435-2300

Submission Date of the most recent District  
Registration Form TWC Sections 36.054 & 49.054): December 10, 2014

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

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid * 09/30/14	Expense Reimbursements 09/30/14	Title at Year End
<b><u>Board Members:</u></b>				
Wilmer Roberts	(Elected) 11/6/2012 - 11/8/2016	\$ 4,350	\$ 1,669	President
David Onsongo	(Appointed) 12/5/2012 - 11/8/2016	\$ 1,200	\$ 144	Vice-President
Amy Pankop Geallis	(Appointed) 3/7/2012 - 11/4/2014	\$ 600	\$ 67	Secretary
Anna M. Canaves	(Appointed) 8/7/2013 - 11/4/2014	\$ 1,950	\$ 1,260	Asst. Secretary
Brandon Somers	(Appointed) 11/6/2013 - 11/4/2014	\$ 1,800	\$ 98	Asst. Secretary
<b><u>Consultants:</u></b>				
Crossroads Utility Services LLC	11/11/2010	\$ 108,351	\$ -	Operator
Armbrust & Brown, PLLC	6/26/2002	\$ 40,466	\$ -	Attorney
Schroeder Engineering Co.	6/26/2002	\$ 9,397	\$ -	Engineer
Bott & Douthitt, PLLC	7/1/2010	\$ 32,350	\$ 304	District Accountant
Public Finance Group LLC	5/3/2014	\$ -	\$ -	Financial Advisor
McCall Gibson Swedlund Barfoot PLLC	8/5/2009	\$ 11,500	\$ -	Auditor
McCall Parkhurst & Horton, LLP	6/26/2002	\$ -	\$ -	Bond Counsel
Travis County Tax Collector	11/4/1997	\$ 915	\$ -	Tax Collector

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

**OTHER SUPPLEMENTARY  
INFORMATION**

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
OSI-1. PRINCIPAL TAXPAYERS  
SEPTEMBER 30, 2014**

Taxpayer	Type of Property	Tax Roll Year		
		2014	2013	2012
SG Land Holdings LLC	Real Land & Improvements	\$ 3,957,027	\$ 3,952,260	\$ -
Spasco LTD	Real Land & Improvements	1,872,386	1,795,058	2,331,000
Shadowglen MOB Partners LLC	Real Land & Improvements	836,418	-	-
Homeowner	Real Land & Improvements	267,506	269,193	269,193
Homeowner	Real Land & Improvements	264,700	247,900	235,558
Homeowner	Real Land & Improvements	262,037	246,707	-
Homeowner	Real Land & Improvements	258,904	244,499	-
Homeowner	Real Land & Improvements	255,850	241,175	-
Homeowner	Real Land & Improvements	255,089	240,963	-
Homeowner	Real Land & Improvements	253,848	239,374	273,229
Cottonwood Holdings Ltd.	Real Land & Improvements	-	733,596	769,578
Homeowner	Real Land & Improvements	-	-	261,593
2010 Shadowglen LLC	Real Land & Improvements	-	-	3,650,134
2010 Shadowglen LLC	Real Land & Improvements	-	-	733,367
MHI Partnership Ltd	Real Land & Improvements	-	-	553,715
Federal National Mortgage Association	Real Land & Improvements	-	-	315,884
<b>Total</b>		<b>\$ 8,483,765</b>	<b>\$ 8,210,725</b>	<b>\$ 9,393,251</b>
Percent of Assessed Valuation		<b>6.8%</b>	<b>7.2%</b>	<b>8.7%</b>

**TRAVIS COUNTY  
MUNICIPAL UTILITY DISTRICT NO. 2  
OSI-2. ASSESSED VALUE BY CLASSIFICATION  
SEPTEMBER 30, 2014**

Type of Property	Tax Roll Year					
	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 119,914,816	96.5%	\$ 108,344,593	95.3%	\$ 101,090,862	93.7%
Vacant Lot	3,347,864	2.7%	1,255,603	1.1%	780,529	0.7%
Qualified Ag Land	-	-	-	-	-	-
Non-Qualified Land	1,537,361	1.2%	1,602,657	1.4%	1,747,966	1.6%
Rural Land, Non-Qualified	33,596	-	33,596	-	-	-
Commercial Real Property	1,872,386	1.5%	1,795,058	1.6%	2,331,000	2.2%
Telephone Company	13,439	-	14,068	-	14,380	-
Commercial Personal Property	622,091	0.5%	519,575	0.4%	503,705	0.5%
Residential Inventory	22,200	0.1%	2,433,669	2.1%	3,038,703	2.8%
Totally Exempt Property	19,295	-	19,295	0.0%	161,520	0.1%
Less: Adjustments	<u>(3,054,886)</u>	<u>(2.5)%</u>	<u>(2,315,271)</u>	<u>(1.9)%</u>	<u>(1,799,450)</u>	<u>(1.6)%</u>
Total Taxable	<u>\$ 124,328,162</u>	<u>100.0%</u>	<u>\$ 113,702,843</u>	<u>100.0%</u>	<u>\$ 107,869,215</u>	<u>100.0%</u>

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

LAW OFFICES

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

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

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

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

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

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2  
UNLIMITED TAX REFUNDING BONDS, SERIES 2015  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,400,000**

**AS BOND COUNSEL FOR TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 2** (the "District") in connection with the issuance 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 and in the order of the District adopted on February 4, 2015 authorizing the issuance of the Bonds and the Pricing Certificate as defined in, and authorized by, the order (collectively, the "Order").

**WE HAVE EXAMINED** the applicable and pertinent Constitution and laws of the State of Texas, certified copies of the pertinent proceedings of the District, and other pertinent documents authorizing and relating to the issuance of said Bonds, including the executed Bond (Bond Number T-1).

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

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

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners 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 and refinanced therewith. In expressing the aforementioned opinions, we have relied on the Verification Report of Grant Thornton, LLP, and assume compliance by the District with certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

**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.

**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. 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 the District and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

Respectfully,

**APPENDIX C**  
**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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