

NEW ISSUE-BOOK-ENTRY-ONLY

**Ratings: BAM Insured S&P “AA” (stable outlook); Moody’s Underlying Rating: “A3”
See “MUNICIPAL BOND RATINGS” AND “BOND 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.

\$3,350,000

**Williamson County Water, Sewer, Irrigation, and Drainage District No. 3
(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)**

UNLIMITED TAX BONDS, SERIES 2015A

Dated: January 1, 2015

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

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

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



MATURITY SCHEDULE
(see inside cover page)

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the initial purchaser of the Bonds (the “Initial Purchaser”) subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about January 28, 2015 in Austin, Texas.

MATURITIES
(Due September 1)

Due	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)	Due	Principal Amount	Interest Rate ^(a)	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)
2015	\$ 5,000	2.000%	0.500%	970007MC1	2020	\$ 25,000	2.000%	1.850%	970007MH0
2016	5,000	2.000%	1.000%	970007MD9	2021	25,000	2.250%	2.000%	970007MJ6
2017	5,000	2.000%	1.250%	970007ME7	2022 *	25,000	2.250%	2.250%	970007MK3
2018	5,000	2.000%	1.500%	970007MF4	2023 *	25,000	2.500%	2.500%	970007ML1
2019	5,000	2.000%	1.700%	970007MG2					
\$200,000 3.500% ^(a) Term Bond Due September 1, 2029* Yield ^(b) 3.100% CUSIP Number 970007MS6 ^(c) \$450,000 3.250% ^(a) Term Bond Due September 1, 2036* Yield ^(b) 3.350% CUSIP Number 970007MZ0 ^(c) \$2,575,000 3.375% ^(a) Term Bond Due September 1, 2039* Yield ^(b) 3.450% CUSIP Number 970007NC0 ^(c)									

* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022 in whole or from time to time in part, on September 1, 2021, 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, 2029, September 1, 2036 and September 1, 2039 (collectively, the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."

- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97.4% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.470691%.
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Initial Purchaser (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from January 1, 2015 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Initial Purchaser, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of First Southwest Company (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 97.4% of par plus accrued interest to date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Initial Purchaser.

Prices and Marketability

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

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

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

Securities Laws

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

MUNICIPAL BOND RATINGS

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A3" to the Bonds.

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

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2014 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$492.2 million, \$38.0 million and \$454.2 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

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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 Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 (the "District"), was legislatively created by House Bill 2528, Acts of the 70th Texas Legislature, Regular Session, 1987 Texas General Laws, Chapter 650, as a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution and operates under Chapters 49 and 54, Texas Water Code, as amended.

The District was created to provide water, wastewater and drainage services to the property within the District currently being developed as a mixed-use development including Star Ranch, Forest Creek and Silver Leaf single family subdivisions, the Fairways at Star Ranch Apartments, Orion Star Ranch Apartments, the Links at Forest Creek Apartments, Star Ranch Golf Townhomes, as well as the Star Ranch Golf Course and Clubhouse. The District has entered into utility construction agreements with certain developers within its boundaries in order to facilitate the construction of water, wastewater and drainage facilities to serve property within its boundary. See "THE DISTRICT – General."

Location The District includes approximately 751.26 acres of land located in the extraterritorial jurisdiction of the City of Hutto and is situated in southeastern Williamson County and in northeastern Travis County, Texas. The District is located immediately north of Priem Lane and immediately west of the State Highway 130 Toll Road. The northern part of the District lies approximately two miles south of the intersection of FM 685 and US Highway 79 (US 79). See "THE DISTRICT - Location."

The Developers Five entities developed the single-family residential property within the District including: (i) SR Investments, Ltd., a Texas limited partnership whose general partner is Commerce Texas Properties, Inc., a Texas corporation ("SRI"); (ii) KPKM II Ventures, Ltd., a Texas limited partnership ("KPKMII"); (iii) PK-Tack, Ltd., a Texas limited partnership ("PK Tack"); (iv) Len-Buf Land Acquisition of Texas, LP, a Texas limited partnership ("Len-Buf") and (v) PH SLII, LP, a Texas limited partnership. Brushy Creek, Ltd., a Texas limited partnership, is currently developing the Star Ranch Golf Townhomes. Tack Development, Ltd. ("Tack Development") is currently developing the Hutto Nursing Center, a 55,951 square foot nursing home. See "THE DEVELOPERS - Description of Developers" and "THE DISTRICT – Historical and Current Status of Development."

Status of Development Development of the District commenced in 2000, and, as of November 1, 2014, approximately 552 acres (or 76.51% of the approximately 716 developable acres within the District) have been or are currently being developed with utility facilities. Approximately 275 acres have been developed as the single family residential subdivisions of: Star Ranch Sections 1, 2, 3, 5-1, 5-2, 7-1A and 7-1B; Forest Creek Sections 34, 35, 36, 37, 38 and 39; and Silver Leaf Section 1, Phase 1 and 2 encompassing a total of 970 developed single family lots, which includes 932 completed homes, 18 homes under construction and 20 vacant developed single family lots. Multi-family development includes the Orion Star Ranch Apartments (402 units), the Links at Forest Creek Apartments (220 units), the Fairways at Star Ranch Apartments (396 units) and 12 completed duplex units (Star Ranch Section 1 and 4). Additionally, the Star Ranch Golf Townhomes (6.99 acres being developed as 61 townhome units) are currently under construction and expected to be completed in the first quarter of 2015. Additional development within the District includes a daycare center, a 40,600 square foot medical/office building, a 55,951 square foot nursing home, the Longhorn Business Park, and the Star Ranch Golf Course and Clubhouse. See "THE DISTRICT – Historical and Current Status of Development."

Builders..... According to the Developers, there are four homebuilders currently active within the District including: Buffington Texas Classic Homes, Pacesetter Homes, Clark Wilson Builder Inc. and Megatel Homes, Inc. Additionally, the Developers have represented that the sales prices of homes being constructed generally range from approximately \$253,990 to \$354,990 with square footage ranging from approximately 1,772 to 4,583. See "THE DEVELOPERS - Homebuilders."

THE BONDS

Description.....	The Bonds in the aggregate principal amount of \$3,350,000 mature serially in varying amounts on September 1 of each of the years 2015 through 2023, and as Term Bonds which mature September 1, 2029, September 1, 2036 and September 1, 2039, as set forth on the inside cover page hereof. Interest accrues from January 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 earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, 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, 2029, September 1, 2036 and September 1, 2039 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 Hutto, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	The Bonds constitute the ninth installment of new money bonds issued by the District. The District has also issued four installments of refunding bonds. The District has never defaulted on the timely payment of principal and interest on the District's \$3,875,000 Unlimited Tax Bonds, Series 2006 (the "Series 2006 Bonds"); \$6,250,000 Unlimited Tax Bonds, Series 2007 (the "Series 2007 Bonds"); \$5,225,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$4,900,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$4,350,000 Unlimited Tax Refunding Bonds, Series 2010 (the "Series 2010 Bonds"); \$2,500,000 Unlimited Tax Bonds, Series 2010A (the "Series 2010A Bonds"); \$2,000,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"); \$8,290,000 Unlimited Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"); \$2,950,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"); \$2,585,000 Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds"); \$3,675,000 Unlimited Tax Bonds, Series 2013B (the "Series 2013B Bonds"); and \$4,645,000 Unlimited Tax Refunding Bonds, Series 2015 (the "Series 2015 Bonds"). The proceeds of each installment of new money bonds included up to 24 months of capitalized interest. See "FINANCIAL STATEMENT – Outstanding Bonds."
Authority for Issuance.....	The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 54 of the Texas Water Code, as amended, bond elections held within the District on November 7, 2000 and May 12, 2012, approving the issuance of bonds, the approving Order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") and an order adopted by the Board of Directors of the District on the date of the sale of the Bonds (the "Bond Order"). See "THE BONDS - Authority for Issuance."
Use of Proceeds.....	The proceeds of the Bonds will be used to finance the District's share of the costs for the following projects: (i) water supply and wastewater treatment impact fees; (ii) shared utilities along Winterfield Road serving Star Ranch Section 7 Phase 2; and (iii) water, wastewater, and drainage facilities serving Star Ranch Section 7 Phase 1B, Star Ranch Golf Townhomes, and Star Ranch Parcel 23 Townhomes. In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest, and (iv) pay certain costs associated with the issuance of the Bonds. SEE "USE AND DISTRIBUTION OF BOND PROCEEDS."
Bonds Authorized But Unissued.....	At an election held within the District on November 7, 2000, voters within the District authorized \$31,345,000 in bonds for water, wastewater and drainage facilities to serve the District. At a subsequent election held within the District on May 12, 2012, the voters within the District authorized an additional \$9,805,000 in bonds for water, wastewater and drainage facilities for the District, totaling \$41,150,000 in bonds authorized for such purposes. After the sale of the Bonds, \$6,425,000 in new money bonds will remain authorized but unissued from the May 12, 2012 bond election. See "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS." Additionally, at elections held within the District on November 7, 2000 and May 12, 2012, voters within

the District authorized the issuance of refunding bonds pursuant to each election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued.

Municipal Bond Rating and

Bond Insurance..... Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") is expected to assign a rating of "AA" (stable outlook) to the Bonds, as a result of a municipal bond insurance policy issued by Build America Mutual Assurance Company ("BAM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A3" to the Bonds.

Qualified Tax-Exempt

Obligations The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2015 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."

Bond Counsel

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

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

Financial Advisor Public Finance Group LLC, Austin, Texas.

Engineer Murfee Engineering Company, Inc., Austin, Texas

Manager Crossroads Utility Services, Round Rock, Texas

Bookkeeper Bott & Douthitt, PLLC, Austin Texas

INVESTMENT CONSIDERATIONS

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

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SELECTED FINANCIAL INFORMATION
(Unaudited as of January 14, 2015)

2014 Certified Assessed Valuation	\$325,625,843 ^(a)
Estimated Assessed Valuation as of November 1, 2014	\$340,900,948 ^(b)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 33,915,000 ^(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation	10.42%
Ratio of Gross Debt to Estimated Assessed Valuation as of November 1, 2014	9.95%
2014 Tax Rate	
Debt Service	\$ 0.6262
Maintenance	0.1820
Total 2014 Tax Rate	<u>\$ 0.8082</u> ^(d)
Debt Service Fund Balance (as of January 14, 2015)	\$ 585,096 ^(e)
Percentage of current tax collections (Tax Years 2005-2013)	98.34% ^(f)
Percentage of total tax collections (Tax Years 2005-2013)	99.51% ^(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2039, inclusive)	\$ 2,083,413
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections	\$ 0.68 /\$100 AV
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of November 1, 2014 at 95% collections	\$ 0.65 /\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2034)	\$ 2,554,576
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections	\$ 0.83 /\$100 AV
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of November 1, 2014 at 95% collections	\$ 0.79 /\$100 AV
Number of active connections as of November 1, 2014	
Single Family - Occupied	912
Single Family - Unoccupied	1
Single Family - Builder	74
Multifamily (1,018 total units/ 980 units occupied)	227
Commercial	4
School	1
Other	<u>14</u>
Total Number of Active Connections	1233
Estimated Population as of November 1, 2014	5,642 ^(g)

- (a) Assessed valuation of the District as of January 1, 2014 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) As estimated by WCAD (including TCAD 2014 assessed valuation) as of November 1, 2014 and is included solely for purposes of illustration. Such amount reflects an estimate of the taxable value within the District and is subject to review and change by WCAD and TCAD. No tax will be levied on such amount unless it is certified by WCAD and TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.8082 at its meeting in September 2014.
- (e) Unaudited as of January 14, 2015. Does not include approximately 24 months' capitalized interest included in the Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit. According to the leasing staffs at the apartment complexes, as of November 1, 2014, the Fairways at Star Ranch apartments were 93% occupied (368 units out of 396 units); the Links at Forest Creek apartments were 97% occupied (213 units out of 220 units); and the Orion Star Ranch apartments were 99% occupied (399 units out of 402 units).

OFFICIAL STATEMENT
relating to
\$3,350,000
Williamson County Water, Sewer, Irrigation, and Drainage District No. 3
(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)

UNLIMITED TAX BONDS, SERIES 2015A

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 (the “District”) of its \$3,350,000 Unlimited Tax Bonds, Series 2015A (the “Bonds”).

The Bonds are issued pursuant to an order (the “Bond Order”) adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to the Constitution and general laws of the State of Texas (the “State”) including Acts of the 70th Legislature of the State of Texas, 1987 Regular Session, Chapter 650 (the “Special Act”), Chapters 49 and 54 of the Texas Water Code, as amended, a bond election approved by the voters within the District on November 7, 2000, a bond election approved by the voters within the District on May 12, 2012, and the approving order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”).

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District, its finances and certain developers within the District: SR Investments, Ltd. (“SRI”); KPKM II Ventures, Ltd. (“KPKMII”); PK-Tack, Ltd. (“PK Tack”); Len-Buf Land Acquisition of Texas, LP (“Len-Buf”); Brushy Creek, Ltd.; and Tack Development, Ltd. (collectively the “Developers”). Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue Suite 1300, Austin, Texas, 78701 or from the District’s Financial Advisor, Public Finance Group LLC, 7004 Bee Cave Road, Building 3, Suite 315, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

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

THE BONDS

General Description

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

Redemption

Optional Redemption . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2029, September 1, 2036 and September 1, 2039 are subject to mandatory sinking fund redemption prior to maturity by lot in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

\$200,000 Term Bond Maturing September 1, 2029	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2024	\$ 25,000
2025	25,000
2026	25,000
2027	25,000
2028	50,000
2029*	50,000

\$450,000 Term Bond Maturing September 1, 2036	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2030	\$ 50,000
2031	50,000
2032	50,000
2033	75,000
2034	75,000
2035	75,000
2036*	75,000

\$2,575,000 Term Bond Maturing September 1, 2039	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2037	\$ 100,000
2038	1,200,000
2039*	1,275,000

* Stated Maturity

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

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

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

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

DTC Redemption Provision

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

Termination of Book-Entry-Only System

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

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

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

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

Replacement Bonds

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

Authority for Issuance

At an election held within the District on November 7, 2000, voters within the District authorized \$31,345,000 in bonds for water, wastewater and drainage facilities to serve the District. At a subsequent election held within the District on May 12, 2012, the voters within the District authorized an additional \$9,805,000 in bonds for water, wastewater and drainage facilities for the District, totaling \$41,150,000 in bonds authorized for such purposes. The Bonds constitute the ninth installment of new money bonds issued by the District. After the sale of the Bonds, no bond authorization for new money purposes will remain from the November 7, 2000 bond election and \$6,425,000 principal amount of District bonds will remain authorized but unissued from the May 12, 2012 bond election. The Bonds are issued pursuant to the terms and provisions of the Bond Order, the Special Act, Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by the TCEQ.

Source of and Security for Payment

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District. The Board covenants in the Bond 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 Hutto dissolves the District and assumes all debts and liabilities of the District.

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

Payment Record

The Bonds constitute the ninth installment of new money bonds for water, wastewater and drainage facilities. The District has also issued four installments of refunding bonds. The District has never defaulted on the timely payment of principal and interest on its outstanding bonds. The District has previously issued \$3,875,000 Unlimited Tax Bonds, Series 2006 (the "Series 2006 Bonds"); \$6,250,000 Unlimited Tax Bonds, Series 2007 (the "Series 2007 Bonds"); \$5,225,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$4,900,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$4,350,000 Unlimited Tax Refunding Bonds, Series 2010 (the "Series 2010 Bonds"); \$2,500,000 Unlimited Tax Bonds, Series 2010A (the "Series 2010A Bonds"); \$2,000,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"); \$8,290,000 Unlimited Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"); \$2,950,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"); \$2,585,000 Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds"); \$3,675,000 Unlimited Tax Bonds, Series 2013B (the "Series 2013B Bonds"); and \$4,645,000 Unlimited Tax Refunding Bonds, Series 2015 (the "Series 2015 Bonds"). The proceeds of each installment of new money bonds included up to 24 months of capitalized interest.

Flow of Funds

The Bond Order creates or confirms the creation by the District of a Debt Service Fund and a Capital Projects Fund.

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

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

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

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

Defeasance of Outstanding Bonds

General . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order and the District will have no further responsibility with respect to amount available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds including any insufficiency therein (and by the failure) of such paying agent (or other financial institution permitted by applicable law) to receive payments when due on the Defeased Securities.

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

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of 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 with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

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

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

Paying Agent/Registrar

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

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

Record Date

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

Issuance of Additional Debt

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 November 7, 2000, voters within the District authorized \$31,345,000 in bonds for water, wastewater and drainage facilities to serve the District. At a subsequent election held within the District on May 12, 2012, the voters within the District authorized an additional \$9,805,000 in bonds for water, wastewater and drainage facilities for the District, totaling \$41,150,000 in bonds authorized for such purposes. The District voters also authorized refunding bonds at each election. Following the issuance of the Bonds, no bond authorization for new money

purposes will remain from the November 7, 2000 bond election and \$6,425,000 principal amount of new money bonds will remain authorized but unissued from the May 12, 2012 bond election. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized But Unissued."

Effective September 13, 2003, Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code were amended to authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities (other than swimming pools and golf courses). To date, the District has not voted any bonds for park and recreational facilities. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional indebtedness which 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. See "MUNICIPAL BOND RATINGS."

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

At the time of creation, the District contained approximately 368.07 acres of land. Since that time, the District has undertaken six annexations of land and one exclusion of land resulting in the current District acreage of approximately 751.26 acres.

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

Alteration of Boundaries

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

Approval of the Bonds

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

Amendments to the Bond Order

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the District's share of the costs for the following projects: (i) water supply and wastewater treatment impact fees; (ii) shared utilities along Winterfield Road serving Star Ranch Section 7 Phase 2; and (iii) water, wastewater, and drainage facilities serving Star Ranch Section 7 Phase 1B, Star Ranch Golf Townhomes, and Star Ranch Parcel 23 Townhomes.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest; and (iv) pay certain costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds are set forth below. Of the proceeds to be received from the sale of the Bonds, \$2,655,225 is estimated to be required for construction costs, and \$694,775 is estimated to be required for non-construction costs, including \$232,536 of capitalized interest (approximately 24 months of interest at a rate of 3.470691%).

Construction Costs

A. Developer Contribution Items

1. Shared Utilities Along Winterfield Road (Star Ranch Sec. 7)	\$ 104,748
2. Star Ranch Section 7, Phase 1B - W, WW, & D	251,881
3. Star Ranch Golf Townhomes - W, WW, & D	504,740
4. Star Ranch Parcel 23 Townhomes - W, WW, & D	1,102,830 ^(a)
5. Engineering (15% of Items No. 1-4)	294,630
Total Developer Contribution Items	\$ 2,258,829

B. District Items

1. Water Supply Impact Fees	\$ 254,800
2. Wastewater Service Impact Fees	141,596
Total District Items	\$ 396,396

Total Construction Costs	\$ 2,655,225
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Non-Construction Costs

A. Legal fees (2%)	\$ 67,000
B. Financial Advisor Fees (2%)	67,000
C. Interest Costs	
1 Capitalized Interest (24 months @ 3.470691%)	232,536
2 Developer Interest	44,030 ^(b)
D. Bond Discount (2.60%)	87,108
E. Bond Issuance Expenses	58,020
F. Bond Application Report Costs	45,000
G. Attorney General Fee (0.10%)	3,350
H. TCEQ Bond Issuance Fee (0.25%)	8,375
I. Contingency ^(c)	82,355
Total Non-Construction Costs	\$ 694,775

TOTAL BOND ISSUE REQUIREMENT	<u>\$ 3,350,000</u>
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(a) The TCEQ directed the District to property escrow \$1,102,830 for construction of Parcel 23 pending TCEQ receipt of required documentation.

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

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

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

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

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the 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.

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

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

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

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2014 Certified Assessed Valuation of the District is \$325,625,843 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Requirement will be \$2,554,576 (2034) and the Average Requirement will be \$2,083,413 (2015 through 2035, inclusive). Assuming (1) no increase or decrease from the 2014 Certified Assessed Valuation, and (2) no use of funds on hand, a tax rate of \$0.83/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Requirement of \$2,554,576 and a tax rate of \$0.68/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Requirement of \$2,083,413. The District's Estimated Assessed Valuation as of November 1, 2014 is \$340,900,948. Based upon the assumptions above, a tax rate of \$0.79/\$100 assessed valuation, at a 95% collection and a tax rate of \$0.65/\$100 assessed valuation, at a 95% collection would be necessary to pay the Maximum and Average Requirements, respectively. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

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

Registered Owners' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether Section 49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property or to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

Bond Insurance Risks

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

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

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

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

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

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

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

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

Marketability

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

Continuing Compliance with Certain Covenants

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

Future Debt

District Debt: Currently approximately 552 acres of land within the District have been developed with utility facilities by the Developers. According to information obtained by Murfee Engineering Company, (the "District's Engineer"), the Developers have advanced approximately \$22,890,641 in construction costs plus engineering to develop the 552 acres with utility facilities (including capital recovery fees) and, after the issuance of the Bonds, the Developers will be fully reimbursed for such costs.

The District reserves in the Bond Order the right to issue the remaining \$6,425,000 authorized but unissued new money bonds from the May 12, 2012 bond election (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. 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. All of the remaining \$6,425,000 bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ, from time to time. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

Governmental Approval

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS." The TCEQ approved the issuance of the Bonds by an order signed on December 10, 2014 (the "TCEQ Order"). In addition, the Attorney General of Texas must also approve the legality of the Bonds prior to their delivery.

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

No Requirement to Build on Developed Lots

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

Forward-Looking Statements

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

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

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

Tax Exempt Property – Strategic Housing Finance Corporation of Travis County

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

Future and Proposed Legislation

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

Environmental Regulation

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

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

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

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

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

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC "CAAP" which includes control measures and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). Although the Austin Area was in compliance with 2008 eight-hour ozone standard, it remains close to the standard. The EPA and President Obama have indicated that additional areas will not be designated nonattainment under the 2008 ozone standard. The EPA is under a court deadline to propose an ozone national ambient air quality standard ("NAAQS") by December 2014 and finalize it by October 2015. EPA indicated the range of ozone NAAQS will be between 60-70 ppm. EPA is scheduled to designate areas under this new NAAQS by October 2017. The Austin Area remains vulnerable to being designated nonattainment if EPA lowers the ozone NAAQS. Any nonattainment designation may impact the economy and communities in the Austin Area.

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

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

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

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

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

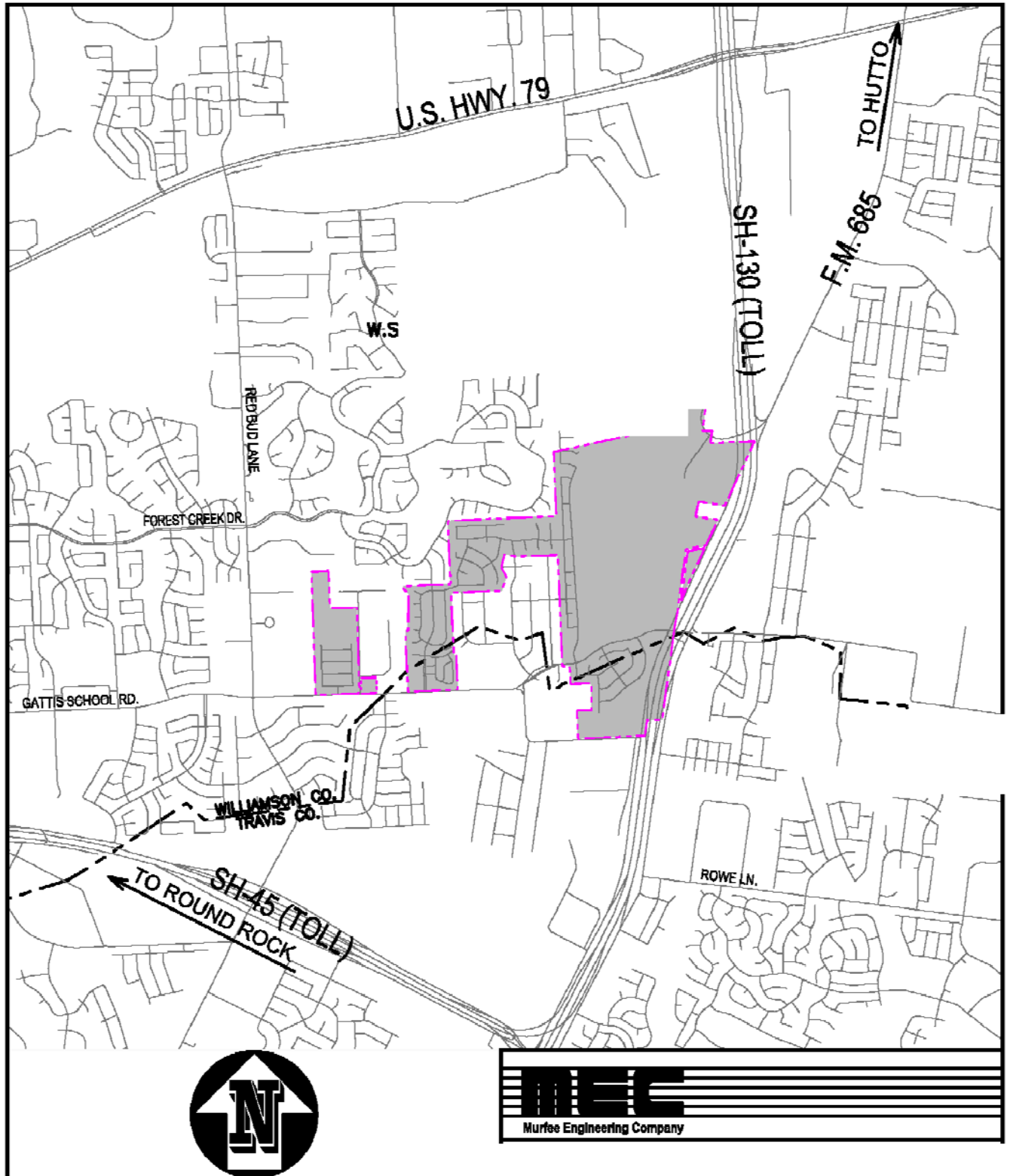
Operations of the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the "waters of the United States." The District must obtain a permit from the U.S. Army Corps of Engineers if operations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

Drought Conditions

Central Texas, like other areas of the State, is experiencing drought conditions. The District adopted a water conservation and drought contingency plan and currently has implemented voluntary water restrictions for residents of the District. Manville Water Supply Corporation ("MWSC") provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions continue, water usage and rates could be impacted.

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LOCATION MAP



THE DISTRICT

General

The District was legislatively created by the Special Act as a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution and operates under the Special Act, and Chapters 49 and 54, Texas Water Code, as amended.

The District was created to provide water, wastewater and drainage services to the property within the District currently being developed as a mixed-use development including Star Ranch, Forest Creek and Silver Leaf subdivisions as well as the Star Ranch Golf Course and Clubhouse. The District has entered into utility construction agreements with the Developers in order to facilitate the construction of water, wastewater and drainage facilities to serve property within its boundary.

Management of the District

Board of Directors

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

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires November</u>
Rance Richter	President	16-½ years	2016
Jim Goldrick	Vice President	16-½ years	2016
Bob Dickerson	Director	6 years	2018
Daniel Bates	Secretary / Treasurer	16-½ years	2018
Lee Buckley	Asst. Secretary/Treasurer	16-½ years	2016

Consultants

Tax Assessor/Collector

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

The portion of land and improvements in the District that is located in Travis County is 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, Mr. Bruce Elfant, currently serves the District in this capacity under contract for the portions of the District located in Travis County.

General Manager

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

Engineer

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

Bookkeeper

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

Financial Advisor

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

Bond Counsel

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

General Counsel

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

Location

The District is located entirely within the extraterritorial jurisdiction of the City of Hutto, Texas (the "City" or "Hutto") and lies within both Williamson County and Travis County, Texas. The District is located immediately north of Priem Lane and immediately west of State Highway 130. The northern part of the District begins almost two miles south of the intersection of FM 685 and US 79.

The District as originally created by the Special Act contained approximately 368.07 acres. Since creation, the District has approved six annexations and one exclusion resulting in the District's existing acreage of approximately 751.26 acres.

Historical and Current Status of Development

Land Acquisition... The District as originally created by the Special Act in 1987 contained 368.07 acres comprised of two contiguous tracts of land including approximately 290.22 acres (the "Original Tract") owned by Theodor Timmerman, Earl Hagn and Tim Timmerman, each owning an undivided interest and 77.85 acres owned by Timmerman Investments. From 1987 until 1999, no development or change in boundaries occurred within the District. In 1999, 29.26 acres were excluded from the District's boundaries and 275.35 acres were annexed into the District boundaries. In September 2001, approximately 64 acres owned by KPKMII were annexed into the District. In January 2006, approximately 58.46 acres owned by Len-Buf Land Acquisition of Texas, LP were annexed into the District. In July 2008, approximately 3.18 acres were annexed into the District. Finally, in January 2014, approximately 5.06 acres were annexed into the District, bringing the total acreage within the District to 751.26, as reflected on the District's most recent boundary map, which the surveyor who prepared such boundary map has certified as a more accurate description than manually adding and subtracting the land annexed and excluded from the District over time.

In June 1997, Theodor Timmerman, Earl Hagn and Tim Timmerman contributed the Original Tract and became limited partners in Brushy Creek, Ltd. ("BCL"), a Texas limited partnership whose general partner is Commerce Texas Properties, Inc. ("Commerce Properties"), a Texas Corporation wholly owned by Tim Timmerman, who serves as president. Since that time, the limited partners of BCL have been purchased and transferred to the Timmerman Family Limited Partnership, a Texas limited partnership comprised of Tim Timmerman and his family.

The 77.85 acre tract was purchased by PK-TACK, Ltd., a Texas limited partnership comprised of TACK Development Company, Inc., a Texas corporation as general partner and KPKMII, a Texas limited partnership as a limited partner which is currently comprised of Russell Parker, Maxwell United Holdings, LP, Thomas and Grace Maxwell Family Partnership and Clarence J. and Bernadette M. Kellerman Trust, as limited partners and KPKM, Inc., as general partner, which is a Texas corporation owned by Russell Parker and Clarence J. Kellerman.

In 1999, Tim Timmerman entered in a contract to purchase approximately 200 acres from Earl Klattenhoff and closed on 65 acres. Timmerman contributed a portion of 65 acres to SR Investments, Ltd. ("SRI"), a Texas limited partnership comprised of Timmerman Family Limited Partnership, as limited partners and Commerce Texas Properties Inc., as general partner. SRI purchased additional acreage from BCL to develop Star Ranch Section 1.

Property within the District is currently being developed as mixed use including single family homes, apartments, townhomes, duplexes, retail and commercial improvements as well as the Star Ranch Golf Course and Clubhouse.

Star Ranch Golf Course and Clubhouse... In 2000, OLY Star Ranch General Partnership constructed the Star Ranch Golf Course and Club House on approximately 180 acres within the District consisting of an 18-hole golf course and a 15,000 square foot Club House which includes a restaurant, pro shop and meeting rooms. Star Ranch Golf Course is currently owned by Star Golf Partners Ltd., a Texas limited partnership, comprised of limited partners Tack Development, Timmerman Hagn Ltd., Ray C. Wicken, MTJC Development, LLC, and Ricky Heine; and SGP Investments LLC, as general partner, a limited liability company for which Tim Timmerman is the sole member. The Star Ranch Golf Course is a daily fee golf course open to the public.

Apartment Complex Development... Trammell Crow Residential purchased approximately 22 acres within the District at the beginning of 2008 to develop a 396 unit apartment complex, called the Fairways at Star Ranch Apartments. Construction began in March 2008 and was completed in May 2009. This property was purchased in August 2012 by AMFPPII and is now called the Fairways at Star Ranch. In May 2008, Trada Partners XII, LP ("Trada") completed construction on a 15.84 acre tract in Forest Creek Section 39, developed into a 55 building, 220 unit apartment project, now called the Links at Forest Creek. Western Rim Investors 2008-4, LP, a Texas limited partnership ("Western") purchased approximately 21 acres within the District in December 2008 to develop a 402 unit apartment complex now called the Orion Star Ranch Apartments. Construction began in January 2009 and was completed in November 2010.

Star Ranch Golf Townhomes... In 2014, Brushy Creek, Ltd. began construction on a 61 unit townhome complex on approximately 6.99 acres, which is expected to be completed by the first quarter of 2015.

Residential Development... *Star Ranch, Section 1.* In 2002 SRI completed the development of utility facilities to serve Star Ranch, Section 1 (23.85 acres, originally platted as 99 single family lots but subsequently re-platted as 59 single family lots and nine duplex lots). Star Ranch, Section 1 is completely built out and contains 59 completed homes and 9 completed duplex units.

Star Ranch, Section 2. BCL completed the development of utility facilities to serve Star Ranch, Section 2 (15.32 acres, platted as 64 single family lots) in the first quarter of 2005. Star Ranch, Section 2 is completely built out and contains 64 completed homes.

Star Ranch, Section 3. In January 2007, SRI completed the development of utility facilities to serve Star Ranch, Section 3 (8.31 acres, platted as 37 single family lots). Star Ranch, Section 3 is completely built out and contains 37 completed homes.

Star Ranch, Section 4. In 2006, SRI completed the development of utility facilities to serve Star Ranch, Section 4 (5.99 acres, platted as four retail/commercial lots and three residential duplex lots. The residential portion of Star Ranch, Section 4 is completely built out and contains three completed duplex units.

Star Ranch, Section 5, Phase 1. In July 2007, SRI completed the development of utility facilities to serve Star Ranch, Section 5, Phase 1 (24.51 acres, platted as 87 single family lots). As of November 1, 2014, Star Ranch, Section 5, Phase 1 contained 86 completed homes and 1 home under construction.

Star Ranch, Section 5, Phase 2. In October 2008, SRI completed the development of utility facilities to serve Star Ranch, Section 5, Phase 2 (16.06 acres, platted as 50 single family lots). Star Ranch, Section 5, Phase 2 is completely built out and contains 50 completed homes.

Star Ranch, Section 7, Phase 1A. In January 2012, SRI completed the development of utility facilities to serve Star Ranch, Section 7, Phase 1A. Star Ranch, Section 7, Phase 1A lies within both the District and Williamson County MUD No. 22 ("WCMUD22"). Of the 53 lots in the section, 27 lots are within the District and 26 lots are within WCMUD22. The total platted acreage is 13.58 acres with 8.49 acres in the District. As of November 1, 2014, Star Ranch, Section 7, Phase 1A contained 24 completed homes, 2 homes under construction and 1 vacant developed single family lot within the District.

Star Ranch, Section 7, Phase 1B. In June 2012, SRI completed the development of utility facilities to serve Star Ranch, Section 7, Phase 1B. Star Ranch Section 7, Phase 1B lies within both the District and WCMUD22. Of the 57 lots in the subdivision, 7 lots are within the District and 50 lots are within MUD No. 22. The total platted acreage is 13.55 acres with 1.38 acres in the District. As of November 1, 2014, Star Ranch Section 7, Phase 1B is completely built out and contains 7 completed homes.

Forest Creek, Section 34. KPKMII completed the development of utility facilities to serve Forest Creek, Section 34 (27.10 acres, platted as 105 single family lots) in the second quarter of 2005. According to KPKMII, all of the 105 single family lots in Section 34 have been purchased by Bowen Family Homes (53 lots) and Ryland Homes (52 lots). Forest Creek, Section 34 is completely built out and contains 105 completed homes.

Forest Creek, Section 35. PK Tack completed the development of utility facilities to serve Forest Creek, Section 35 (24.69 acres, platted as 97 single family lots) in January 2006. Forest Creek, Section 35 is completely built out and contains 97 completed homes.

Forest Creek, Section 36. PK Tack completed the development of utility facilities to serve Forest Creek, Section 36 (27.83 acres, platted as 95 single family lots) in 2008. Forest Creek, Section 36 is completely built out and contains 95 completed homes.

Forest Creek, Section 37. In January 2012, PK Tack completed the development of utility facilities to serve Forest Creek, Section 37 (23.07 acres, platted as 88 single family lots). Forest Creek, Section 37 is completely built out and contains 88 completed homes.

Forest Creek, Section 38. KPKMII completed the development of utility facilities to serve Forest Creek, Section 38 (16.66 acres, platted as 58 single family lots) in 2009. Forest Creek, Section 38 is completely built out and contains 58 completed homes.

Forest Creek, Section 39. In May 2008, Trada completed construction on a 15.84 acre tract in Forest Creek Section 39, developed into a 55 building, 220 unit apartment project, now called the Links at Forest Creek.

Silver Leaf, Section 1. Len-Buf Land Acquisition of Texas, LP ("Len-Buf"), a Texas limited partnership, whose current general partner is Buffington Land Management, LLC, a Texas limited liability company, and whose only limited partner is Buffington Land, Ltd., a Texas limited partnership, completed construction of Silver Leaf, Section 1 (29.04 acres platted as 114 single family lots) in the fourth quarter of 2006. Len-Buf was originally formed by Lennar Texas Holding Company, a Texas corporation, and Buffington JV Fund Management, LLC, a Texas limited liability company, as general partners, and Lennar Homes of Texas Land and Construction and Buffington JV Fund II, Ltd., a Texas limited partnership, as limited partners. On June 1, 2008, Lennar Texas Holding Company and Lennar Homes of Texas Land and Construction assigned their respective interests in Len-Buf to Buffington JV Fund Management, LLC and Buffington JV Fund II, Ltd.; and contemporaneous with such assignment, Buffington JV Fund Management, LLC and Buffington JV Fund II, Ltd. (together with several other real estate development entities) were merged into Buffington Land, Ltd. According to Len-Buf, Buffington Texas Classic Homes and Megatel Homes, Inc. are currently building homes in Silver Leaf, Section 1. As of November 1, 2014, Len-Buf reported that Silver Leaf, Section 1 contained 111 completed homes, 1 home under construction and 2 vacant developed single family lots.

Silver Leaf, Section 2. PH SLII, LP ("SLII"), a Texas limited partnership, completed the development of utility facilities to serve Silver Leaf, Section 2 (29.41 acres, platted as 82 single family lots) in 2013. SLII acquired the 29.41 acres from Len-Buf on June 12, 2012 and SLII's current general partner is PH SLII Management LLC, a Texas limited liability company whose sole member is Buffington Land Group Management, LLC, a Texas limited liability company. As of November 1, 2014, SLII reported that Silver Leaf, Section 2 contained 51 completed homes, 14 homes under construction and 17 vacant developed single family lots.

Retail/Commercial Development... Other than the Star Ranch Golf Course and Clubhouse, to date, approximately 25.79 additional acres within the District have been developed as retail or commercial, and approximately 101.16 acres remain undeveloped. Additionally, Tack Development Ltd. ("Tack Development") and SRI have informed the District that they have sold a 30 acre tract of land within the District to HEB Grocery Company, Inc. for the development of a HEB Plus Grocery Store, retail and commercial pad sites.

Star Ranch, Section 4. Star Ranch, Section 4 (5.99 acres, platted as four retail/commercial lots and three residential duplex lots) has been final platted for development. All utility facilities to serve Section 4 have been completed. The District can give no assurances whether improvements to the four retail/commercial lots within Star Ranch, Section 4 will occur.

Star Ranch, Section 6. Star Ranch, Section 6 (1.54 acres) has been final platted for development. All utilities to serve Section 6 have been completed. According to SRI, all 1.54 acres in Section 6 have been sold to IBC Bank.

Forest Creek, Section 39 West. Forest Creek, Section 39 West (7.47 acres) has been final platted for development. All utility facilities to serve Section 39 West have been completed and a 40,600 sq. ft. medical/office center on 5.85 acres and a daycare center on 1.62 acres have been constructed.

Longhorn Business Park. The Longhorn Business Park, a fully developed commercial office complex on approximately 5.06 acres, was annexed into the District in January 2014.

Hutto Nursing Center. In 2014, Tack Development began construction on a 55,951 square foot nursing home on approximately 5.732 acres, which is expected to be completed and contain residents by February 2015.

HEB Star Ranch Commercial Center... According to Tack Development, approximately 30 acres at the intersection of Gattis School Road and SH 130 was sold to HEB Grocery Company, Inc. in April, 2006. According to Tack Development, HEB intends to construct an approximately 178,000 square foot HEB Plus Store. Tack Development has completed the construction of a 12-inch waterline necessary to serve the site, however, the construction of certain wastewater, storm drainage and street improvements will be necessary to serve the proposed commercial improvements. Tack Development plans to develop the balance of the site (approximately 9 acres) into additional retail and commercial pad sites. See "THE DISTRICT - Strategic Partnership Agreement." The District can give no assurances whether development of utility facilities and improvements within this tract will occur and HEB Grocery Company, Inc., which currently owns and operates an approximately 50,000 square foot grocery store near the District, is under no obligation to build a HEB Plus store within the District. It is currently anticipated HEB will construct all utility facilities for the site.

Status of Development

As of November 1, 2014, there are approximately 169.42 acres within the District which remain undeveloped but are developable. Of such remaining developable acreage, approximately 77.61 acres are owned by Tack Development, approximately 28.5 acres is owned by BCL, approximately 22.63 acres is owned by Earl Klattenhoff and 30 acres is owned by HEB Grocery Company. The balance of the undeveloped property is owned by others.

The following chart more completely describes the status of development within the District as of November 1, 2014:

(Chart appears on following page)

Section	Acreage	Platted Lots		Completed Units		Under Construction		Vacant Lots	
		Single Family	Duplex	Single Family	Duplex	Single Family	Duplex	Single Family	Duplex
A. Single Family Developed with Utility Facilities									
Star Ranch									
Section 1	23.85	59	9	59	9	-	-	-	-
Section 2	15.32	64	-	64	-	-	-	-	-
Section 3	8.31	37	-	37	-	-	-	-	-
Section 4	0.50	-	3	-	3	-	-	-	-
Section 5 Phase 1	24.51	87	-	86	-	1	-	-	-
Section 5 Phase 2	16.06	50	-	50	-	-	-	-	-
Section 7 Phase 1-A	7.17	27	-	24	-	2	-	1	-
Section 7 Phase 1-B	1.38	7	-	7	-	-	-	-	-
subtotal	97.10	331	12	327	12	3	-	1	-
Forest Creek									
Section 34	27.10	105	-	105	-	-	-	-	-
Section 35	24.69	97	-	97	-	-	-	-	-
Section 36	27.83	95	-	95	-	-	-	-	-
Section 37	23.07	88	-	88	-	-	-	-	-
Section 38	16.66	58	-	58	-	-	-	-	-
subtotal	119.35	443	-	443	-	-	-	-	-
Silver Leaf									
Section 1	29.04	114	-	111	-	1	-	2	-
Section 2	29.41	82	-	51	-	14	-	17	-
subtotal	58.45	196	-	162	-	15	-	19	-
Total Single Family developed with Utilities	274.90	970	12	932	12	18	-	20	-
B. Other Developed with Utility Facilities									
Apartments ^(a)	58.84								
Retail ^(b)	15.00								
Star Ranch Golf Townhomes ^(c)	6.99								
Longhorn Business Park ^(d)	5.06								
Nursing Home ^(e)	5.73								
Golf Course/Clubhouse	185.20								
Total Other Developed	276.82								
Total Developed with Utilities	551.71								
C. Remaining Developable Acreage									
Single Family &/or Townhomes	68.19								
Retail/Commercial	101.16								
Total	169.35								
D. Undevelopable									
Open space/utilities	30.19								
Total District Acreage	751.26								

- (a) Includes the Fairways at Star Ranch Apartments (22.00 acres; 396 units), Orion Star Ranch Apartments (21.00 acres; 402 units) and the Links at Forest Creek (15.84 acres; 220 units).
- (b) Includes Star Ranch Section 4 (5.99 acres), Star Ranch Section 6 (1.54 acres) and Forest Creek Section 39 West (7.47 acres)
- (c) The Star Ranch Golf Townhomes are currently being constructed as 61 townhome units on approximately 6.99 acres.
- (d) In January 2014, the Longhorn Business Park, a fully developed commercial office complex on approximately 5.06 acres, was annexed into the District.
- (e) In 2014, Tack Development began construction on a 55,951 square foot nursing home on approximately 5.732 acres, which is expected to be completed and contain residents by February 2015.

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." The District contains approximately 721 developable acres, of which 551.71 acres have been developed with utility facilities. After the issuance of the Bonds the Developer will have been fully reimbursed for the construction of water, sanitary sewer and drainage facilities to develop the 551.71 acres. In addition, \$1,102,830 plus engineering fees has been included in the proceeds of the Bonds for the future development of utility facilities to serve Parcel 23 (68.19 acres expected to be developed as either single family homes or townhome units). If the undeveloped portion of the District is eventually developed, additions to the 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 \$6,425,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developers for the existing utility facilities and provide utility service to the remaining undeveloped but potentially developable acres within the District. See "THE BONDS – Issuance of Additional Debt." The Developers are 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.

Strategic Partnership Agreement

In May 2006, the District and the City of Hutto (the "City") executed a strategic partnership agreement pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District (approximately 116 acres) was annexed into the City for limited purposes, while the balance of the District remains in the City's extraterritorial jurisdiction. As a result of the limited purposes annexation, the City imposes its 2% sales and use taxes (but not its property taxes) within the area of limited purpose annexation. The City has also agreed to grant 50% of such sales tax funds collected within the District to Commerce Properties or its assigns, the general partner for SRI, for the construction of certain roads necessary for further commercial and residential development within the District and the Hutto area. In addition, pursuant to the strategic partnership agreement, the City has agreed not to annex the District for general purposes until the earlier of 30 years from the date of the agreement or upon the completion and issuance of District bonds for 90% of utility infrastructure by the District.

THE DEVELOPERS

Role of Developers

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 Developers

As of November 1, 2014, approximately 552 acres within the District have been developed by twelve development entities including SRI, BCL, Tack Development, KPKMII, PK Tack, Trada, Len-Buf, SLII, Trammel Crow, Western, Brushy Creek, Ltd. and OLY Star Ranch as Star Ranch Sections 1, 2, 3, 4, 5-1, 5-2, 6, 7-1A and 7-1B, Forest Creek Sections 34, 35, 36, 37, 38, and 39, Silver Leaf Sections 1 and 2, and Star Ranch Golf Course and Clubhouse respectively, as well as three apartment complexes consisting of 1,018 apartment units, the Hutto Nursing Center, and a townhome complex consisting of 61 units. The following chart summarizes what each development entity has developed or is currently developing to date:

(Chart appears on following page)

Entity	Sections
SRI:	Star Ranch, Section 1
	Star Ranch, Section 3
	Star Ranch, Section 4
	Star Ranch, Section 5 Phases 1 & 2
	Star Ranch, Section 6
	Star Ranch, Section 7 Phase 1A
BCL:	Star Ranch, Section 2
KPKMII:	Forest Creek, Section 34
	Forest Creek, Section 38
PK Tack:	Forest Creek, Section 35
	Forest Creek Section 36
	Forest Creek Section 37
Trada:	Multi-family (220 unit apt. complex)
	(the Links at Forest Creek – Forest Creek, Section 39)
Len-Buf	Silver Leaf, Section 1
PH SLII, LP	Silver Leaf, Section 2
Trammell Crow:	Multi-family (396 unit apt. complex)
	(the Fairways at Star Ranch Apartments)
Western:	Multi-family (402 unit apt. complex)
	(Orion Star Ranch)
OLY Star Ranch:	Star Ranch Golf Course & Clubhouse
Tack Development:	Retail (HEB grocery store)
	Nursing Home (Hutto Nursing Center)
Tack Townhomes, LLC	Star Ranch Golf Townhomes

The following information describes the single family property developed and the source of funds for acquisition and development of property within the District.

SRI. In 2002, Tim Timmerman contributed property to SRI and SRI purchased property from BCL which was developed into Star Ranch Section 1 (23.85 acres; platted as 59 single family lots and 12 duplex units). BCL financed the purchase of the acreage for SRI. As of January 2006, the note had been repaid and according to SRI there are no outstanding acquisition liens against this property. In 2003, SRI obtained a \$2.5 million development loan from First Texas Bank to develop Star Ranch, Section 1. According to SRI, the development loan has been repaid and there are no outstanding development liens against this property.

In 2006, SRI purchased property from BCL which was developed as Star Ranch Sections 3 (8.31 acres; platted as 37 single family lots) and 5-1 (24.51 acres; platted as 87 single family lots). In September 2006, SRI obtained a \$4 million development loan from American Bank of Commerce to develop Star Ranch, Sections 3 and 5-1. According to SRI, there is no outstanding balance on the development loan.

In 2007, SRI purchased property from BCL which was developed into Star Ranch Section 5-2 (16.06 acres; platted as 50 single family lots). In October 2007, SRI obtained a \$2.102 million development loan from American Bank of Commerce to develop Star Ranch, Section 5-2. According to SRI, there is no outstanding balance on the development loan.

In 2011, SRI purchased property from Tack Development which was developed as Star Ranch Section 7 Phase 1A (7.17 acres, platted as 27 single family lots). SRI obtained a \$900,000 development loan from First Texas Bank to develop Star Ranch Section 7 Phase 1A. According to SRI, there is no outstanding balance on the development loan.

In 2011, SRI purchased property from Tack Development which was developed as Star Ranch Section 7 Phase 1B (1.38 acres, platted as 7 single family lots). SRI obtained a \$900,000 development loan from First Texas Bank to develop Star Ranch Section 7 Phase 1B. According to SRI, there is no outstanding balance on the development loan.

BCL. The 15.32 acres which have been developed by BCL as Star Ranch, Section 2 (platted as 64 single family lots) was originally owned by three individuals each with an undivided interest which was deeded to BCL in June 1997 and there are no acquisition liens on this property. According to BCL, Star Ranch, Section 2 was developed from the proceeds of a revolving line of credit in the amount of \$925,000 with First Texas Bank. According to BCL, the line of credit has been repaid and there are no development liens against this property.

KPKMII. The 27.10 acres which have been developed by KPKMII as Forest Creek, Section 34 (platted as 106 single family lots) were purchased and developed with an acquisition and development loan from Bank One in the amount of \$2,340,000. According to KPKMII, the acquisition and development loan has been repaid and there are no acquisition or development liens against this property.

In June 2008, KPKMII began construction of utility facilities to serve Forest Creek, Section 38 (16.66 acres; platted as 58 single family lots). Such construction was completed in 2008. According to KPKMII, Section 38 was developed from the proceeds of a revolving line of credit from First Texas Bank in the amount of \$1,706,854. According to KPKMII, the line of credit has been repaid and there are no development liens against this property.

PK Tack. The 24.69 acres which have been developed by PK Tack as Forest Creek, Section 35 (platted as 97 single family lots) were purchased and developed with an acquisition and development loan from Plains Capital Bank in the amount of \$2,325,000. According to PK Tack, the outstanding Plains Capital loan has been paid off with the proceeds of the sale of lots to builders.

The 27.83 acres which have been developed by PK Tack as Forest Creek, Section 36 (platted as 95 single family lots) were purchased and developed with a revolving line of credit from First Texas Bank in the amount of \$4,027,250. According to PK Tack, the line of credit has been repaid and there are no development liens against this property.

The 23.07 acres which have been developed by PK Tack as Forest Creek, Section 37 (platted as 88 single family lots) were purchased and developed with a revolving line of credit from First Texas Bank in the amount of \$4,027,250. According to PK Tack, the line of credit has been repaid and there are no development liens against this property.

Len-Buf. The 29.04 acres that have been developed by Len-Buf as Silver Leaf, Section 1 (platted as 114 single family lots) were purchased and developed with an acquisition and development loan from Texans Commercial Capital, LLC in the amount of \$6,156,000. According to Len-Buf, the development loan was paid off, in-full, in June 2010.

SLII. The 29.41 acres which have been developed by SLII as Silver Leaf, Section 2 (platted as 82 single family lots) were purchased and developed with an acquisition and development loan from United Development Funding IV, a Maryland REIT, in the amount of \$4,727,016. According to SLII, as of October 31, 2014, the development loan balance was \$927,148.61.

Homebuilders

According to the Developers, there are four homebuilders currently active within the District including: Buffington Texas Classic Homes, Pacesetter Homes, Clark Wilson Builder, Inc. and Megatel Homes, Inc. Additionally, the Developers have represented that the sales prices of homes being constructed generally range from approximately \$253,990 to \$354,990 with square footage ranging from approximately 1,772 to 4,583.

During the calendar years 2004 through 2009, a total of 482 single family homes were constructed within the District along with 1,018 apartment units. During the calendar year 2010, 57 single family homes were constructed within the District. During calendar year 2011, 65 single family homes were constructed within the District. During calendar year 2012, 87 single family homes and 12 duplex units were constructed within the District. During calendar year 2013, 145 homes were constructed within the District. As of November 1, 2014, 96 homes have been constructed and an additional 18 homes are under construction in the District so far this calendar year. Additionally, 61 townhomes units are currently under construction.

Utility Construction Agreements

The District has entered into several utility construction agreements with various developers governing the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. The District has entered into nine separate utility construction agreements with SRI relating to: the payment of water and wastewater impact fees; the 12" water main; the water, wastewater and drainage facilities to serve Star Ranch, Sections 1, 3, 5-1, 5-2, 7-1A and 7-1B; and Forest Creek Section 37 water line. The District has also entered into utility construction agreements, respectively, with Tack Development relating to the 24" wastewater line; Star Ranch Commercial lot 1, Block D, Star Ranch Parcel 23 and Hutto Nursing Center; with BCL relating to the water, wastewater and drainage facilities to serve Star Ranch, Section 2; with KPKMII relating to the water, wastewater and drainage facilities to serve Forest Creek, Sections 34, 36, 38 and 39; with PK Tack relating to water, wastewater and drainage facilities to serve Forest Creek, Sections 35 and 37 and a 12-inch water main; with BCL and Tack Development regarding Parcel 24, a 27.84-acre tract; and with Len-Buf relating to water, wastewater and drainage facilities to serve Silver Leaf Section 1 and 2. The District has also entered into a reimbursement agreement with HEB Grocery Company, Inc. for constructing water, wastewater and drainage facilities to serve a 30-acre tract.

Agricultural Waiver

Much of the undeveloped acreage within the District is subject to an agricultural exemption, however, SRI, Tack Development, KPKMII, Len-Buf, Star Golf Partners Ltd., PK Tack and BCL have executed agreements, respectively, which are recorded in the real property records of Williamson and Travis Counties, as applicable, and are covenants running with the land waiving the right to have their respective land located within Star Ranch Sections 1, 2, 3, 5, 7-1A, and 7-1B, Forest Creek, Sections 34, 35, 36, 37 and 39, and Silver Leaf Sections 1 and 2, and the Star Ranch Golf Course and Clubhouse classified as agricultural, open-space or timberland. In addition, SRI, Tack Development, KPKMII, Len-Buf, Star Golf Partners Ltd., PK Tack and BCL have waived the right to have their lots and houses (if any) classified as business inventory. Such agreements may not be modified without the approval of the TCEQ and is binding on purchasers of such land from each developer. See "TAXING PROCEDURES - Property Subject to Taxation by the District."

Contractual Reimbursement Claims

In 2003, the District and KPKMII entered into a Utility Construction Agreement for development of 62.87 acres in the District. In April 2005, KPKMII conveyed approximately 15.84 acres out of the 62.87 acres to Robin Reshatar ("Reshatar"), or assigns, but contractually retained its rights to reimbursement by an amendment to the conveyance contract. Reshatar subsequently sold and conveyed his rights and interests in and to the 15.84 acre parcel to Trada Partners XII, LP ("Trada"). Trada has claimed that it was unaware of KPKMII retaining the reimbursement rights to the 15.84 acre parcel. Although Trada has no reimbursement agreement with the District, Trada has asserted that it has reimbursement rights to the infrastructure improvements within the 15.84 acre parcel. KPKMII has a reimbursement agreement with the District and asserts that it has reimbursement rights to the infrastructure improvements within the 15.84 acre parcel. KPKMII and Trada have agreed to jointly pursue their claim of reimbursement rights against Reshatar. The District does not anticipate taking any action regarding settling the claim of KPKMII and Trada against Reshatar, however the District intends to reimburse the appropriate entity for the infrastructure improvements within the 15.84 acre parcel. This dispute is not expected to have any financial impact on the District.

THE SYSTEM

Regulation

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

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

Water Supply and Distribution

The District receives its potable water from the Manville Water Supply Corporation ("MWSC") pursuant to a 40 year wholesale water supply agreement dated July 13, 2000 between the District, MWSC and Tack Development, which agreement was amended on August 13, 2001, August 21, 2006 and November 10, 2011 (as amended, the "Water Supply Agreement.") The Water Supply Agreement with the District, prior to the November 10, 2011 amendment, provided for water in an amount sufficient to serve up to 2,600 living-unit-equivalents ("LUE's") based upon a phased development schedule beginning with 250 LUE's in 2000 and the addition of 250 LUE's per year up to 2014 and the remainder paid by 2015. The November 10, 2011 amendment added Williamson County Municipal Utility District No. 22 as a party to the agreement, bringing additional area into the agreement for water service, and provided for water in an amount sufficient to serve up to 3,400 LUEs. The absorption scheduled was changed to reflect 100 LUEs per year up to 2027 and the remainder paid by 2028.

Pursuant to the Water Supply Agreement, if the District fails to purchase water in accordance with the take down schedule, MWSC, upon 90 days' notice, may cancel and terminate its obligation to deliver increased levels of service in future years unless the District remits all LUE fees due and owing within 90 days after written notice. Additionally, the obligation of MWSC to continue delivery of water to the District is specifically conditioned on the District, Tack Development, or related entities contributing to MWSC sites for a water storage facility and well sites. Any defaults or disputes under the Water Supply Agreement are to be subject to arbitration by the parties.

According to MWSC's engineer, MWSC is a member owned, member controlled non-profit corporation currently serving 15,325 connections. MWSC's engineer has stated that the MWSC system consists of: 21 active production wells with a combined capacity of 14,425 gallons per minute ("gpm"), which includes 1,320 gpm from the City of Pflugerville supply and 600 gpm from a City of Austin supply, sufficient to serve 22,533 LUEs with well capacity being the limiting component. MWSC's engineer has also stated that the current MWSC system capacity is supported by 10,650,000 gallons of total storage including 3,200,000 gallons elevated storage including a 1,000,000 gallon elevated storage tank across SH 130 from the District. MWSC has made system improvements expanding its delivery and supply capacity in both physical plant improvements as well as contractual supply and purchase agreements. The MWSC engineer states that the utility has sufficient water service capabilities to provide adequate service to its present and future customers. According to the District's engineer, MWSC delivers potable water to the District through four master meters for distribution to District customers through 8-inch and 12-inch water lines.

The District currently provides water to 1,388 equivalent connections including 560 occupied single family homes (including 220 townhome units), nine vacant houses, 89 builder connections, 1,018 apartments units (713 LUEs), four commercial connections and 13 other connections and anticipates serving 2,600 LUEs at ultimate build out of the District, under the current land use plan.

Wastewater Collection and Treatment

The District receives wastewater treatment service through a 40 year wholesale contract with SWWC Utilities, Inc. ("SWWC") (as amended, the "Wastewater Agreement"). Pursuant to the Wastewater Agreement, SWWC agrees to provide wastewater treatment service for ultimate build out within the District. SWWC has stated that its wastewater treatment plant is operated pursuant to a permit issued by the TCEQ, with permitted capacity for its Forest Creek wastewater treatment plant of 800,000 gallons per day ("gpd"). Additionally, SWWC has stated that the Forest Creek wastewater treatment plant is currently operating under the second phase of the permit (500,000 gpd). The expansion of the wastewater treatment plant is under construction bringing its capacity up to the permitted maximum. The expansion is expected to be operational by March of 2015. SWWC, as of August 2014, is serving approximately 2,136 wastewater equivalent connections, including 620 equivalent connections located outside the boundaries of the District, with an average day flow of 350,000 gpd. The TCEQ approved the use of a lower flow (gallons per day) per connection design criteria for the Forest Creek WWTP based upon historical flow and connection records for the plant and service area collected from January 2006 through February 2009. The TCEQ concluded that using a flow factor of 200 gpd/ESFC is reasonable. The hydraulic capacity of the plant, as approved by the TCEQ, at 200 gallons per day per connection makes the 500,000 gallon per day existing plant capacity sufficient for 2,500 total connections. After excluding 675 ESFCs for customers outside the District, the existing capacity is adequate to serve 1,825 ESFCs within the District. The expanded wastewater plant at 800,000 gpd will have sufficient capacity to serve 4,000 ESFC's.

According to the District's Engineer, the ultimate build out of the District is estimated at 2,600 LUEs, under the current land plan. Additionally, SWWC has stated that it expects to be able to serve its existing and future customers, including the District at ultimate development.

The District's wastewater is collected through 8 inch and 12 inch collection lines and is then conveyed via lift stations and a 24 inch gravity trunkline to the Forest Creek wastewater treatment plant. The District intends to own and operate the collection system within its boundary with the exception of the 24-inch gravity trunkline which is owned by SWWC. The majority of the current development within the District is primarily located in the southern area of the District. Wastewater from this area is collected and conveyed by the 24 inch wastewater line.

By letter dated September 18, 2014, SWWC notified the District that SWWC planned to implement a consumer price index ("CPI") adjustment to the wholesale rates charged by SWWC to the District under the Wastewater Agreement based on an agreement that SWWC recently reached with the City of Pflugerville. After exchanging correspondence in which the District argued that the wholesale rates charged under the Wastewater Agreement were determined by SWWC's regulatory-approved wastewater tariff and not based on a separate agreement with the City of Pflugerville, SWWC advised the District that SWWC would not implement a CPI adjustment to the District's wholesale rates at this time and would instead seek to increase the wholesale rates charged to the District by amending SWWC's wastewater tariff at the regulatory level. In doing so, SWWC further advised the District that, due to the cost and complexity of amending a wastewater tariff and because SWWC has not amended its wastewater tariff since 2011, a tariff amendment is anticipated to result in a double-digit rate increase to the District. As an alternative, SWWC proposed a rate stabilization agreement involving a CPI adjustment to wholesale wastewater rates similar to SWWC's agreement with the City of Pflugerville. The District has requested additional information from SWWC about its proposed rate stabilization agreement and has authorized the District's manager/operator and general counsel to consult rate experts as necessary in order to evaluate the rate stabilization agreement alternative and other options available to the District.

Storm Drainage

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

100-Year Flood Plain

According to the District's Engineer, no acreage located within the District is located within the 100-year flood plain, as shown on the following Federal Flood Insurance Administration Rate Maps: (i) No. 48491C0515E for Williamson County, Texas, dated September 26, 2008, (ii) No. 48491C0675E for Williamson County, Texas, dated September 26, 2008 and (iii) No. 48453C0280H for Travis County, Texas, dated September 26, 2008.

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Water and Wastewater Operations

Rate and Fee Schedule - Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service. The following schedule sets forth the rates and fees for the District's water and sewer service which were effective as of October 8, 2014.

Water (monthly billings)

Base Rate for 5/8" meter:

Base Rate (2,000 gallons of water service and solid waste pick-up)	\$ 34.70 (minimum)
2,001 – 15,000 gallons of water used	\$ 4.00 per 1,000 gallons
Over 15,001 gallons of water used	\$ 5.25 per 1,000 gallons

Wastewater Usage Charge (monthly billings)

Single Family:

Base Rate:.....	\$ 56.74
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Tap Connection Fees:

Water 5/8" Meter.....	\$ 350.00
Water ¾" Meter.....	\$ 425.00
Water 1" Meter.....	\$ 650.00
Water 1-1/2" Meter	\$ 1,750.00
Over Water 1-1/2" Meter	to be installed by District at cost times three
Wastewater Residential	\$ 350.00
Wastewater Commercial	to be installed by District at cost times three

Capital Expenditure Fees:

Water and wastewater capacity charges are also charged by the District and payable to the District for wholesale water from Manville Water Supply Corporation and wastewater service from SWWC Utilities, Inc.

Water.....	\$ 2,800.00 per LUE
Wastewater Residential.....	\$ 1,556.00 per LUE
Wastewater Commercial/Non-Residential	\$ 1,863.00 per LUE

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Operating Revenues and Expenses Statement - Table 2

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

	Fiscal Year End					
	9/30/2014 ^(a)	9/30/2013 ^(b)	9/30/2012 ^(b)	9/30/2011 ^(b)	9/30/2010 ^(b)	9/30/2009 ^(b)
REVENUES						
Property taxes, including penalties	\$ 400,312	\$ 312,024	\$ 158,640	\$ 178,533	\$ 328,621	\$ 235,907
Service Revenues	1,952,985	1,775,209	1,603,979	1,525,765	1,181,014	890,296
System Connection Fees	128,950	158,550	111,850	94,500	69,750	197,831
Interest	7,670	6,969	5,600	7,910	5,403	13,897
Other	1,414	125	70	538	756	256
TOTAL REVENUES	\$ 2,491,332	\$ 2,252,877	\$ 1,880,139	\$ 1,807,246	\$ 1,585,544	\$ 1,338,187
EXPENDITURES						
Water/wastewater purchases	\$ 1,326,497	\$ 1,170,023	\$ 1,116,796	\$ 1,065,565	\$ 782,411	\$ 542,730
Garbage Collection Fees	163,936	137,376	118,065	104,419	91,259	77,755
Repairs/Maintenance	106,872	92,104	108,365	88,936	101,096	40,025
Landscape Maintenance	28,524	-	-	-	-	-
Tap Inspection Fees	50,076	65,099	43,825	28,830	82,550	107,822
Utilities	34,214	32,238	41,646	31,759	31,629	34,827
Director Fees	9,204	7,751	8,235	9,204	8,558	8,003
Legal Fees	72,166	50,366	63,042	63,611	55,364	58,852
Engineering Fees	34,488	39,756	36,256	49,080	21,351	111,345
Engineering Fees - Special	41,475	-	-	-	-	-
Management Fees	132,844	119,146	104,314	96,363	91,628	85,824
Bookkeeping Fees	24,750	24,750	24,750	24,750	35,365	43,855
Audit Fees	14,500	14,500	18,000	22,500	29,500	22,119
Insurance	3,046	2,706	2,065	1,762	1,926	2,248
Tax Appraisal/Collection Fees	2,944	2,340	1,208	1,399	2,322	1,710
Financial Advisor Fees	426	382	244	267	552	1,540
Other	7,071	7,428	23,876	10,234	18,863	50,737
Capital Outlay	-	-	-	13,905	-	29,574
TOTAL EXPENDITURES	\$ 2,053,034	\$ 1,765,965	\$ 1,710,687	\$ 1,612,584	\$ 1,354,374	\$ 1,218,966
NET REVENUES (DEFICIT)	\$ 438,298	\$ 486,912	\$ 169,452	\$ 194,662	\$ 231,170	\$ 119,221
Beginning Fund Balance	\$ 1,921,216	\$ 1,434,306	\$ 1,264,854	\$ 1,270,192	\$ 1,039,022	\$ 925,075
Plus / (Less): Fund Transfer	(28,000)	(2)	-	(200,000)	-	(5,274)
Ending Fund Balance	\$ 2,331,514	\$ 1,921,216	\$ 1,434,306	\$ 1,264,854	\$ 1,270,192	\$ 1,039,022

(a) Unaudited.

(b) Audited.

DEBT SERVICE REQUIREMENTS - TABLE 3

**Williamson County Water, Sewer, Irrigation, and Drainage District No. 3
\$3,350,000**

Unlimited Tax Bonds, Series 2015A

Dated Date: January 1, 2015

First Interest Payment Due: September 1, 2015

Year	Outstanding Bonds				The Bonds				Total	
Ending	Principal	Interest		Total	Principal	Interest		Total	Principal	Debt Service
31-Dec	Due (09/01)	Due (03/01)	Due (09/01)		(Due 9/01)	(Due 3/01)	(Due 9/01)		and Interest	
2015	\$ 940,000	\$ 450,626	\$ 630,268	\$ 2,020,894	\$ 5,000	\$ -	\$ 74,188	\$ 74,188	\$ 79,188	\$ 2,100,082
2016	930,000	547,221	547,221	2,024,441	5,000	55,591	55,591	111,181	116,181	2,140,623
2017	965,000	534,158	534,158	2,033,316	5,000	55,541	55,541	111,081	116,081	2,149,398
2018	960,000	523,621	523,621	2,007,241	5,000	55,491	55,491	110,981	115,981	2,123,223
2019	1,005,000	513,083	513,083	2,031,166	5,000	55,441	55,441	110,881	115,881	2,147,048
2020	1,015,000	498,671	498,671	2,012,341	25,000	55,391	55,391	110,781	135,781	2,148,123
2021	1,120,000	482,883	482,883	2,085,766	25,000	55,141	55,141	110,281	135,281	2,221,048
2022	1,270,000	465,121	465,121	2,200,241	25,000	54,859	54,859	109,719	134,719	2,334,960
2023	1,310,000	443,808	443,808	2,197,616	25,000	54,578	54,578	109,156	134,156	2,331,773
2024	1,345,000	421,693	421,693	2,188,386	25,000	54,266	54,266	108,531	133,531	2,321,918
2025	1,415,000	398,871	398,871	2,212,741	25,000	53,828	53,828	107,656	132,656	2,345,398
2026	1,475,000	374,593	374,593	2,224,185	25,000	53,391	53,391	106,781	131,781	2,355,966
2027	1,535,000	346,372	346,372	2,227,744	25,000	52,953	52,953	105,906	130,906	2,358,650
2028	1,595,000	316,663	316,663	2,228,325	50,000	52,516	52,516	105,031	155,031	2,383,356
2029	1,670,000	285,478	285,478	2,240,956	50,000	51,641	51,641	103,281	153,281	2,394,238
2030	1,700,000	254,812	254,812	2,209,624	50,000	50,766	50,766	101,531	151,531	2,361,155
2031	1,540,000	223,305	223,305	1,986,610	50,000	49,953	49,953	99,906	149,906	2,136,516
2032	1,240,000	194,489	194,489	1,628,978	50,000	49,141	49,141	98,281	148,281	1,777,259
2033	1,170,000	169,279	169,279	1,508,558	75,000	48,328	48,328	96,656	171,656	1,680,214
2034	2,095,000	145,179	145,179	2,385,358	75,000	47,109	47,109	94,219	169,219	2,554,576
2035	2,170,000	96,294	96,294	2,362,588	75,000	45,891	45,891	91,781	166,781	2,529,369
2036	1,150,000	46,844	46,844	1,243,688	75,000	44,672	44,672	89,344	164,344	1,408,031
2037	950,000	21,969	21,969	993,938	100,000	43,453	43,453	86,906	186,906	1,180,844
2038	-	-	-	-	1,200,000	41,766	41,766	83,531	1,283,531	1,283,531
2039	-	-	-	-	1,275,000	21,516	21,516	43,031	1,318,031	1,318,031
	<u>\$30,565,000</u>	<u>\$ 7,755,029</u>	<u>\$ 7,934,671</u>	<u>\$ 46,254,700</u>	<u>\$ 3,350,000</u>	<u>\$ 1,203,219</u>	<u>\$ 1,277,406</u>	<u>\$ 2,480,625</u>	<u>\$ 5,830,625</u>	<u>\$ 52,085,326</u>

FINANCIAL STATEMENT
(Unaudited as of January 14, 2015)

Assessed Value - Table 4

2014 Certified Assessed Valuation	\$325,625,843 ^(a)
Estimated Assessed Valuation as of November 1, 2014	\$340,900,948 ^(b)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 33,915,000 ^(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation	10.42%
Ratio of Gross Debt to Estimated Assessed Valuation as of November 1, 2014	9.95%
2014 Tax Rate	
Debt Service	\$ 0.6262
Maintenance	<u>0.1820</u>
Total 2014 Tax Rate	<u>\$ 0.8082</u> ^(d)
Debt Service Fund Balance (as of January 14, 2015)	\$ 585,096 ^(e)

Estimated Population as of November 1, 2014..... 5,642 ^(f)

Area of District: 751.26 acres

- (a) Assessed valuation of the District as of January 1, 2014 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) As estimated by WCAD (and includes TCAD's 2014 certified assessed value) as of November 1, 2014 and is included solely for purposes of illustration. Such amount reflects an estimate of the taxable value within the District and is subject to review and change by WCAD and TCAD. No tax will be levied on such amount unless it is certified by WCAD and TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.8082 in September 2014.
- (e) Unaudited as of January 14, 2015. Does not include approximately 24 months' capitalized interest included in the Bond proceeds. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
11/7/2000	Water, Sanitary Sewer & Drainage	\$ 31,345,000.00	\$ 31,345,000.00	\$ -
5/12/2012	Water, Sanitary Sewer & Drainage	<u>9,805,000.00</u>	<u>3,380,000.00</u> ^(a)	<u>6,425,000.00</u>
	Total	\$ 41,150,000.00	\$ 34,725,000.00	\$ 6,425,000.00
11/7/2000	Refunding	47,017,500.00	3,232,190.65	43,785,309.35
5/12/2012	Refunding	<u>14,707,500.00</u>	<u>-</u>	<u>14,707,500.00</u>
	Total	\$ 61,725,000.00	\$ 3,232,190.65	\$ 58,492,809.35

- (a) Includes the Bonds.

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Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds
A. New Money Bonds				
03/01/06	Water, Sanitary Sewer & Drainage	2006	\$ 3,875,000	\$ -
12/01/07	Water, Sanitary Sewer & Drainage	2007	6,250,000	-
12/01/08	Water, Sanitary Sewer & Drainage	2008	5,225,000	155,000
12/01/09	Water, Sanitary Sewer & Drainage	2009	4,900,000	275,000
12/01/10	Water, Sanitary Sewer & Drainage	2010A	2,500,000	2,480,000
12/01/11	Water, Sanitary Sewer & Drainage	2011	2,000,000	1,985,000
01/01/13	Water, Sanitary Sewer & Drainage	2013	2,950,000	2,940,000
12/01/13	Water, Sanitary Sewer & Drainage	2013B	3,675,000	3,670,000
01/01/15	Water, Sanitary Sewer & Drainage	2015A	3,350,000	3,350,000 ^(a)
Subtotal			\$ 34,725,000	\$ 14,855,000
B. Refunding Bonds				
06/01/10	Refunding	2010	\$ 4,350,000	\$ 4,050,000
03/01/12	Refunding	2012	8,290,000	8,025,000
02/01/13	Refunding	2013A	2,565,000	2,340,000
01/01/15	Refunding	2015	4,645,000	4,645,000
Subtotal			\$ 19,850,000	\$ 19,060,000
Total			\$ 54,575,000	\$ 33,915,000

(a) The Bonds.

Cash and Investment Balances - Table 7 ^(a)

General Fund	\$ 2,362,519
Debt Service Fund	585,096 ^(b)
Capital Projects Fund	261,837

(a) Unaudited as of January 14, 2015. Includes cash and investments.

(b) Does not include approximately 24 months' capitalized interest included in the Bond proceeds. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.

Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial

paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

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

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

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

Current Investments - Table 8

The District, at January 14, 2015, is invested in Money Market, TexPool and Certificates of Deposit as shown below. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of January 14, 2015	
Cash	\$ 263,426
Money Market	280,780
TexPool	800,246
Certificates of Deposit	1,865,000
Total Investments	\$ 3,209,452

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.

Taxing Body ^(a)	Gross Debt		% of Overlapping Gross Debt	Amount of Overlapping Gross Debt
	Amount	As of		
Williamson County	702,846,589	12/1/2014	0.73%	5,127,252
Travis County	631,407,697	12/1/2014	0.04%	252,563
Travis Co Healthcare District	15,070,000	12/1/2014	0.40%	60,280
Hutto ISD	123,358,446	12/1/2014	5.17%	6,377,632
Pflugerville ISD	143,046,623	12/1/2014	0.60%	858,280
Round Rock ISD	6,405,385	12/1/2014	0.29%	18,576
Austin Community College	84,441,598	12/1/2014	0.05%	42,221
TOTAL ESTIMATED OVERLAPPING DEBT				\$ 12,736,803
The District (b)	\$ 33,915,000	1/1/2015	100.00%	\$ 33,915,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				\$ 46,651,803
Ratio of Estimated and Overlapping Debt to Certified 2014 Assessed Valuation				14.33%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of November 1, 2014				13.68%

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

(b) Includes the Bonds.

Overlapping Taxes for 2014

	2014 Tax Rates			Average Tax Bill ^(a)		
	Travis County	Williamson County		Travis County	Williamson County	
Overlapping Entity	Pflugerville ISD	Round Rock ISD	Hutto ISD	Pflugerville ISD	Round Rock ISD	Hutto ISD
District	\$0.808200	\$0.808200	\$0.808200	\$ 1,882	\$ 1,882	\$ 1,882
Williamson County		0.486529	0.486529	-	1,133	1,133
Travis County	0.480900			1,120	-	-
Round Rock ISD		1.337500		-	3,114	-
Hutto ISD			1.670000	-	-	3,888
Pflugerville ISD	1.540000			3,586	-	-
Travis County Healthcare District	0.126400			294	-	-
Austin Community College District	0.094200	0.094200	0.094200	219	219	219
Williamson Co FM/RD District		0.040000	0.040000	-	93	93
Williamson County ESD No. 3		0.100000	0.100000	-	233	233
Upper Brushy Creek WC&ID No. 1A		0.020000	0.020000	-	47	47
TOTAL	\$3.049700	\$2.886429	\$3.218929	\$7,100.83	\$6,720.67	\$7,494.86

(a) Based upon 2014 average single-family home value of \$232,837.

TAX DATA

Classification of Assessed Valuation - Table 9

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family	\$197,447,511	60.64%	\$151,971,239	55.82%	\$ 124,554,314	51.57%
Multi Family	94,655,962	29.07%	88,085,415	32.35%	83,355,474	34.51%
Vacant Land	17,900,428	5.50%	16,941,568	6.22%	17,581,618	7.28%
Commercial Real Property	17,773,221	5.46%	15,319,707	5.63%	15,316,015	6.34%
Tangible Personal Property	921,743	0.28%	1,629,805	0.60%	4,060,894	1.68%
Real Inventory	12,320,215	3.78%	12,930,626	4.75%	9,949,947	4.12%
Exempt	123,300	0.04%	128,763	0.05%	195,215	0.08%
Less: Adjustment	(15,516,537)	-4.77%	(14,742,325)	-5.41%	(13,483,299)	-5.58%
Total	\$ 325,625,843	100.00%	\$ 272,264,798	100.00%	\$ 241,530,178	100.00%

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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 respective Tax Assessor/Collector of WCAD and TCAD. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

Tax Year	Assessed Valuation (a)	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2002	8,249,546	0.8500	70,121	59,680	85.11%	59,680	85.11%	9/30/2003 ^(b)
2003	8,809,100	0.8500	74,877	22,129	29.55%	32,378	43.24%	9/30/2004 ^(c)
2004	14,545,301	0.8500	123,635	120,920	97.80%	172,703	139.69%	9/30/2005 ^(b)
2005	20,073,754	0.8500	170,627	169,110	99.11%	172,982	101.38%	9/30/2006 ^(b)
2006	32,779,715	0.8500	278,627	275,153	98.75%	278,324	99.89%	9/30/2007 ^(b)
2007	73,687,950	0.7730	569,607	524,379	92.06%	527,854	92.67%	9/30/2008 ^(b)
2008	100,538,759	0.7730	777,165	776,114	99.86%	786,851	101.25%	9/30/2009 ^(b)
2009	153,860,574	0.7999	1,230,730	1,223,645	99.42%	1,264,345	102.73%	9/30/2010 ^(b)
2010	181,663,535	0.8150	1,524,785	1,475,872	96.79%	1,486,809	97.51%	9/30/2011 ^(b)
2011	209,800,052	0.8150	1,715,484	1,704,264	99.35%	1,707,380	99.53%	9/30/2012 ^(b)
2012	241,530,178	0.8150	1,962,169	1,959,305	99.85%	1,964,087	100.10%	9/30/2013 ^(b)
2013	272,281,907	0.8150	2,219,146	2,215,624	99.84%	2,231,284	100.55%	9/30/2014 ^(d)
2014	325,625,843	0.8082	2,631,708	<i>In process of collection</i>				9/30/2015 ^(e)

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

(b) Audited.

(c) Audited. The golf course constituted the initial development within the District and thus represented the majority of the assessed value. On March 31, 2004, Oly Star Ranch G. P. sold the golf course to Tack Development, Ltd. and Timmerman & Hagn Ltd.; which, in turn, conveyed the golf course to Star Golf Partners, Ltd. Taxes due on the golf course for 2002 and 2003 were not paid until the property was sold in 2004.

(d) Unaudited. Reflects collections through August 31, 2014.

(e) Taxes are 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	\$ 0.6262	\$ 0.6703	\$ 0.6855	\$ 0.7401	\$ 0.7187	\$ 0.6066	\$ 0.5608	\$ 0.3097	\$ 0.5042
Maintenance	<u>0.1820</u>	<u>0.1447</u>	<u>0.1295</u>	<u>0.0749</u>	<u>0.0963</u>	<u>0.1933</u>	<u>0.2122</u>	<u>0.4633</u>	<u>0.3458</u>
Total	<u>\$ 0.8082</u>	<u>\$ 0.8150</u>	<u>\$ 0.8150</u>	<u>\$ 0.8150</u>	<u>\$ 0.8150</u>	<u>\$ 0.7999</u>	<u>\$ 0.7730</u>	<u>\$ 0.7730</u>	<u>\$ 0.8500</u>

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, the Bonds, and any tax bonds which may be issued in the future. At an election held on November 7, 2000, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied 2014 maintenance and operations tax of \$0.1820/\$100 assessed valuation.

Principal Taxpayers - Table 12

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

Name	Type of Property	2014	2013	2012
Fairways at Star Ranch I LLC & Fairways at Star Ranch II LLC ^(b)	Apartments	\$ 39,629,133	\$ 36,294,205	\$ 36,000,000
BRE MF Star Ranch LLC ^(c)	Apartments	38,150,000	34,828,231	31,324,843
Round Rock M3-05 LLC	Apartments	10,346,694	10,320,000	10,062,000
Forest Creek Medical Center	Office Building	9,102,821	7,369,010	6,955,285
HEB Grocery Company LP	Acreage	4,573,800	4,573,800	4,573,800
Star Golf Partners	Golf Course and Clubhouse	2,960,717	2,960,662	2,888,035
Bettina Properties LLC	Private School	2,339,174	1,529,069	1,507,187
SWWC Utilities Inc.	Utility	2,161,576	2,138,955	2,140,358
PH SLII LP	Vacant Lots and Acreage	1,294,968	1,864,824	(a)
Tack Development LTD	Vacant Lots and Acreage	1,308,490	1,821,833	(a)
Sinclair Communications LLC	Utility	(a)	(a)	2,477,839
PK-Tack, Ltd.	Vacant Lots and Acreage	(a)	(a)	2,801,956
Total		\$ 111,867,373	\$ 103,700,589	\$100,731,303
Percent of Assessed Valuation		34.35%	38.09%	41.71%

(a) Not a principal taxpayer for respective year.

(b) Formerly called Western Rim Investors 4 LP

(c) Formerly called AMFP II Fairways Star Ranch LLC and Star Ranch Apartments LP.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2014 Certified Assessed Valuation and the Estimated Assessed Valuation as of November 1, 2014, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2015 through 2039)	\$2,083,413
\$0.68 Tax Rate on 2014 Certified Assessed Valuation of \$325,625,843 @ 95% collections produces	\$2,103,543
\$0.65 Tax Rate on Estimated Assessed Valuation as of November 1, 2014 of \$340,900,948 @ 95% collections produces	\$2,105,063
Maximum Annual Debt Service Requirements on the Bonds (2034).....	\$2,554,576
\$0.83 Tax Rate on 2014 Certified Assessed Valuation of \$325,625,843 @ 95% collections produces	\$2,567,560
\$0.79 Tax Rate on Estimated Assessed Valuation as of November 1, 2014 of \$340,900,948 @ 95% collections produces	\$2,558,462

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Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/15	\$2,100,082 ^(a)
Unaudited Debt Service Fund Balance as of 10/8/14	\$ 541,513 ^(b)
Capitalized Interest included in the proceeds of the Bonds	\$ 232,536 ^(c)
2014 Tax Levy @ 95% collections produces	<u>\$ 1,937,116 ^(d)</u>
Total Available for Debt Service.....	<u>\$2,711,165</u>

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

(b) Unaudited debt service fund balance as of October 8, 2014; does not include any 2014 tax collections and represents debt service fund balance after all 2014 debt service requirements have been paid.

(c) Approximately 24 months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.

(d) The District levied a 2014 debt service tax rate of \$0.6262.

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County Wide Appraisal District

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

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

Property Subject to Taxation by the District

General: Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the appraisal district to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. 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. Furthermore, qualifying surviving spouses of person 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor/collectors are authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have

previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Tax Abatement: Williamson and/or Travis County and the District may enter into tax abatement agreements with owners of real property within such tax abatement 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. Freeport goods are exempt from taxation by the District. The District has not taken action to tax goods-in-transit.

Valuation of Property for Taxation

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

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

The Property Tax Code requires WCAD and TCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in WCAD and TCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by WCAD and 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 WCAD and TCAD choose formally to include such values on its respective appraisal roll.

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1 or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1

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

Rollback of Operation and Maintenance Tax Rate

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

District's Rights In The Event Of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2014". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

Effect of FIRREA on Tax Collections

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

LEGAL MATTERS

Legal Opinions

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District.

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

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

No-Litigation Certificate

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

No Material Adverse Change

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable

income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligation, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

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

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

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

Notice of Certain Events

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

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

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

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the past five years, the District has been in compliance with all material provisions of its continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

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

OFFICIAL STATEMENT

Preparation

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT". The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in 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 DEVELOPERS" – SRI, KPKMII, Len-Buf and Crossroads; "THE SYSTEM" – District Engineer; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" - Williamson Central Appraisal District and 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" – District Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS" (except "Payment Record"); "TAXING PROCEDURES;" "LEGAL MATTERS"; "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" (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 Murfee Engineering, and has been included in reliance upon the authority of said firm in the field of civil engineering.

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

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

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

Updating the Official Statement During Underwriting Period

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

Certification as to Official Statement

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

Annual Audits

Under State Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year once the District has issued bonds or has assets or receipts in excess of \$250,000. Prior to selling bonds or having assets over \$250,000, the District is allowed under State law to file a financial report in lieu of an audit. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Williamson County Water, Sewer, Irrigation, and Drainage District No. 3, as of the date shown on the first page hereof.

/s/ Rance Richter

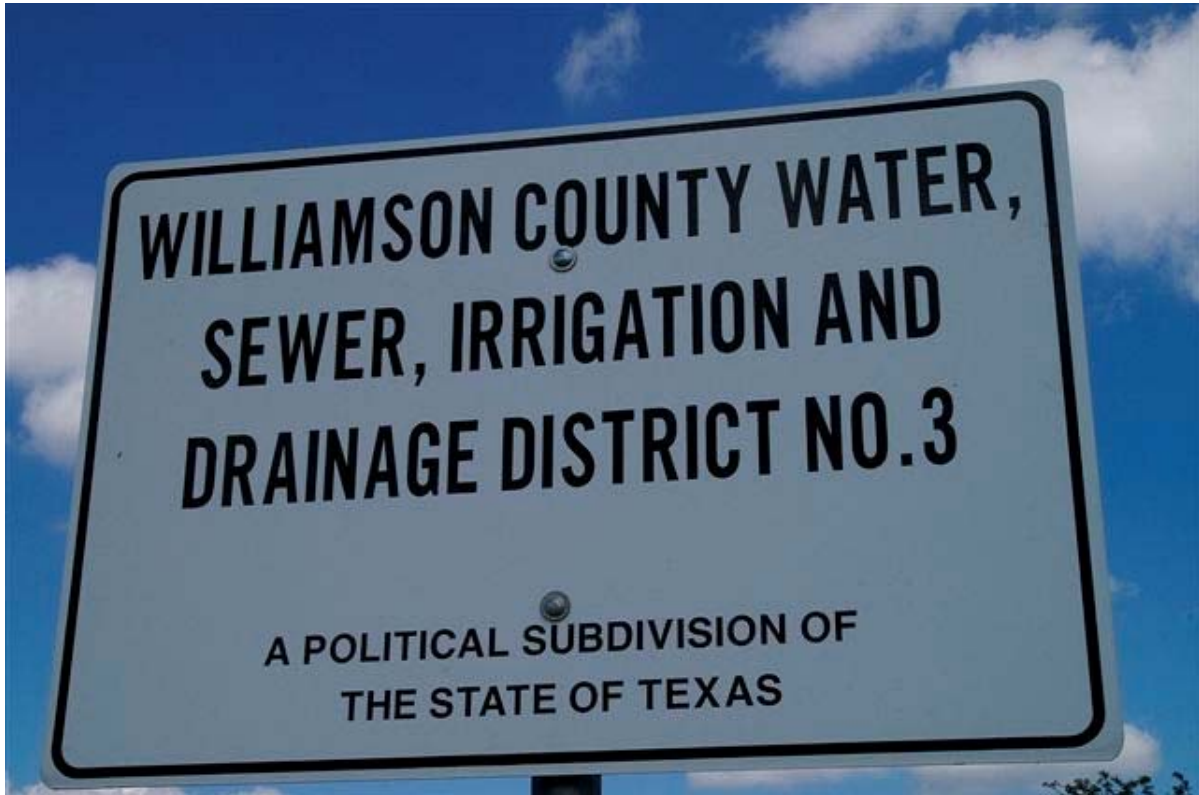
President, Board of Directors
Williamson County Water, Sewer, Irrigation, and
Drainage District No. 3

/s/ Daniel Bates

Secretary, Board of Directors
Williamson County Water, Sewer, Irrigation, and
Drainage District No. 3

PHOTOGRAPHS

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









APPENDIX A

The information contained in this appendix has been excerpted from the audited financial statement of Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 for the fiscal year ended September 30, 2013. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**WILLIAMSON COUNTY
WATER, SEWER, IRRIGATION
AND DRAINAGE DISTRICT
NO. 3**

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



WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF WILLIAMSON

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

WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **8th day of January, 2014**, its annual audit report for the fiscal year ended **September 30, 2013** and that copies of the annual audit report have been filed in the District's office, located at:

100 Congress 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 Representative)

(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this _____ day of _____, _____.

(SEAL)

(Signature of Notary)

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

INDEPENDENT AUDITORS' REPORT



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 303 East Main Street

Round Rock, TX 78664

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

Williamson County Water, Sewer, Irrigation and Drainage District No. 3:

We have audited the accompanying financial statements of the governmental activities and each major fund of Williamson County Water, Sewer, Irrigation and Drainage District No. 3 (the "District"), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-7 and FS-19, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Maxwell Locke + Ritter LLP

Austin, Texas
January 8, 2014

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

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

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the fund balance was \$1,921,218, an increase of \$486,912 from the previous fiscal year. General Fund revenues increased from \$1,880,139 in the previous fiscal year to \$2,252,877 in the current fiscal year due to an increase in service revenues.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$627,701 in the previous fiscal year to \$526,751 in the current fiscal year. Debt Service Fund revenues increased from \$1,557,373 in the previous fiscal year to \$1,657,345 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 \$133,141 in the previous fiscal year to \$210,938 in the current fiscal year. The District issued \$2,950,000 of Series 2013 Unlimited Tax Bonds during the current fiscal year. The Capital Projects Fund received \$2,852,433 of bond proceeds and expended \$2,749,509 for the purchase of infrastructure and bond issue costs.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$502,733. The District adjusted beginning of the year net position downward by \$1,453,244 to account for the effect of GASB Statement No. 65 as explained in Note 12 of the *Notes to the Basic Financial Statements*. Net position, including the prior period adjustment, decreased from a deficit balance of \$1,465,817 to a deficit balance of \$3,421,794.

OVERVIEW OF THE DISTRICT

The District is a political subdivision of the State of Texas created by an order of the Texas State Legislature passed by the 70th Legislature on May 15, 1987. The District operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 684 acres of land. The District is located in southeast Williamson County and northeast Travis County and lies fully within the exclusive extraterritorial jurisdiction of the City of Hutto. The District is divided among three school districts, Hutto Independent School District, Pflugerville Independent School District and Round Rock Independent School District. Access to the District is provided along FM 685. The District was created to provide retail water, wastewater and drainage services to the lands within the District.

WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2013	2012	
Current and Other Assets	\$ 3,044,921	\$ 2,585,020	\$ 459,901
Capital and Non-Current Assets, as restated	20,481,410	18,457,860	2,023,550
Total Assets, as restated	23,526,331	21,042,880	2,483,451
Deferred Charges on Refundings	661,083	-	661,083
Current Liabilities	1,247,964	1,196,921	51,043
Long-term Liabilities	26,361,244	22,765,020	3,596,224
Total Liabilities	27,609,208	23,961,941	3,647,267
Net Investment in Capital Assets, as restated	(5,792,813)	(4,904,019)	(888,794)
Restricted	448,787	549,860	(101,073)
Unrestricted	1,922,232	1,435,098	487,134
Total Net Position, as restated	\$ (3,421,794)	\$ (2,919,061)	\$ (502,733)

The District's combined net position decreased from \$2,919,061 in the previous fiscal year (as adjusted for the prior period adjusted to implement GASB Statement No. 65) to a deficit balance of \$3,421,794 in the current fiscal year. Some of these assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$1,922,232.

WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

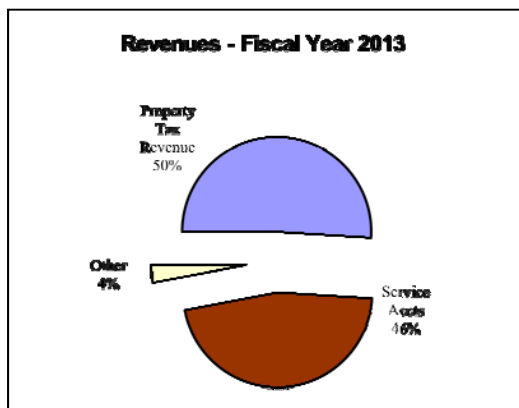
Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2013	2012	
Service accounts	\$ 1,775,209	\$ 1,603,979	\$ 171,230
Property taxes	1,965,502	1,715,007	250,495
Other	169,128	122,154	46,974
Total Revenues	3,909,839	3,441,140	468,699
Water/wastewater/garbage	1,307,399	1,234,861	72,538
Other	477,984	490,182	(12,198)
Debt service	1,427,841	1,398,375	121,963
Depreciation/Amortization	1,199,348	1,435,425	(328,574)
Total Expenses	4,412,572	4,558,843	(146,271)
Change in Net Position	(502,733)	(1,117,703)	614,970
Beginning Net Position	(2,919,061)	(348,114)	(2,570,947)
Prior Period Adjustment	-	(1,453,244)	1,453,244
Ending Net Position	\$ (3,421,794)	\$ (2,919,061)	\$ (502,733)

Revenues were \$3,909,839 for the fiscal year ended September 30, 2013 while expenses were \$4,412,572. Net position decreased by \$502,733.

Property taxes totaled \$1,965,502. Included in these taxes are real and personal property taxes which are assessed October 1 and payable before the following January 31.



The District's assessed value in fiscal year 2013 was approximately \$241 million compared to \$210 million in fiscal year 2012. The tax rate is set after reviewing the operating and debt service requirements and appraised values determined by Williamson and Travis Counties. The ad valorem tax rate for fiscal year 2013 was \$0.815 per \$100 assessed valuation compared to a tax rate of \$0.815 for fiscal year 2012. The District's primary revenue sources are service account fees and property taxes.

WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3 MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2013

ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds by Year

	2013	2012	2011	2010
Cash	\$ 478,896	\$ 502,360	\$ 546,069	\$ 349,325
Cash equivalents, and investments	2,324,542	1,849,878	1,605,210	2,102,531
Receivables	257,642	295,103	285,685	261,408
Total Assets	<u>\$ 3,061,080</u>	<u>\$ 2,647,341</u>	<u>\$ 2,436,964</u>	<u>\$ 2,713,264</u>
Accounts payable	171,426	174,640	228,893	163,217
Other payables	223,259	269,449	226,911	165,695
Total Liabilities, as restated	<u>394,685</u>	<u>444,089</u>	<u>455,804</u>	<u>328,912</u>
Deferred Inflows of Resources, as restated	<u>7,488</u>	<u>8,104</u>	<u>4,707</u>	<u>10,982</u>
Restricted	737,689	760,842	711,599	1,103,178
Assigned	-	-	66,829	-
Unassigned	1,921,218	1,434,306	1,198,025	1,270,192
Total Fund Balances	<u>2,658,907</u>	<u>2,195,148</u>	<u>1,976,453</u>	<u>2,373,370</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 3,061,080</u>	<u>\$ 2,647,341</u>	<u>\$ 2,436,964</u>	<u>\$ 2,713,264</u>

For the fiscal year ended September 30, 2013, the District's governmental funds reflect a combined fund balance of \$2,658,907. This fund balance includes a \$486,912 increase to the General Fund.

The Debt Service Fund reflects a decrease of \$100,950 in fiscal year 2013. The Debt Service Fund remitted bond principal of \$810,000 and interest of \$1,028,557. The Debt Service Fund received \$97,567 of bond proceeds from the District's Series 2013 Unlimited Tax Bonds. Additionally, the District issued \$2,585,000 of Series 2013A Unlimited Tax Refunding Bonds to defease \$265,000 of Series 2006 bonds, \$1,625,000 of Series 2007 bonds and \$335,000 of Series 2008 bonds. More detailed information about the District's debt is presented in the *Notes to the Basic Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$77,797 increase in fund balance for fiscal year 2013. During the fiscal year, the District purchased \$2,749,509 of water, wastewater, and drainage assets as well as bond issuance expenditures.

For the year ended September 30, 2013, the District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for fiscal years beginning after December 15, 2011, and provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period. GASB Statement No. 63 has been implemented in these financial statements.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

ANALYSIS OF GOVERNMENTAL FUNDS (continued)

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

BUDGETARY HIGHLIGHTS

The General Fund pays for daily operating expenditures. The Board of Directors adopted a budget on September 12, 2012, including revenues of \$2,002,795 as compared to expenses of \$1,874,666. When comparing actual to budget, the District had a positive variance of \$358,783. 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 \$20,481,410 in infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	<u>9/30/2013</u>	<u>9/30/2012</u>
Capital Assets:		
Land	\$ 23,603	\$ -
Water/Wastewater/Drainage	22,447,470	19,998,450
Less: Accumulated Depreciation	<u>(1,989,663)</u>	<u>(1,540,590)</u>
Total Net Capital Assets	<u>\$ 20,481,410</u>	<u>\$ 18,457,860</u>

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2013**

LONG TERM DEBT

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

	Bonds Payable
Series 2007	\$ 175,000
Series 2008	300,000
Series 2009	4,475,000
Series 2010	4,105,000
Series 2010A	2,485,000
Series 2011	1,990,000
Series 2012	8,125,000
Series 2013	2,945,000
Series 2013A	2,510,000
Total	<u>\$ 27,110,000</u>

The District owes approximately \$27.1 million to bond holders. During the year, the principal balance was reduced by \$810,000. More detailed information about the District's long-term debt is presented in the *Notes to the Basic Financial Statements*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value for 2013 is approximately \$272 million. The fiscal year 2014 tax rate is \$0.815 on each \$100 of taxable value. Approximately 17% of the property tax will fund general operating expenses, and approximately 83% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2014 projects an operating fund balance increase of \$210,733.

REQUESTS FOR INFORMATION

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

**BASIC
FINANCIAL STATEMENTS**

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
STATEMENT OF NET POSITION AND GOVERNMENTAL
FUNDS BALANCE SHEET
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Position
<u>ASSETS</u>						
Cash and cash equivalents -						
Cash on deposit	\$ 478,896	\$ -	\$ -	\$ 478,896	\$ -	\$ 478,896
Cash equivalents	196,116	290,778	217,648	704,542	-	704,542
Investments	1,375,000	245,000	-	1,620,000	-	1,620,000
Receivables -						
Property taxes	1,014	6,474	-	7,488	-	7,488
Service accounts, no provision for uncollectible accounts	210,069	-	-	210,069	-	210,069
Interest	1,115	592	-	1,707	-	1,707
Interfund	14,959	-	1,200	16,159	(16,159)	-
Intergovernmental	14,380	-	-	14,380	-	14,380
Other	7,839	-	-	7,839	-	7,839
Capital assets, net of accumulated depreciation -						
Land	-	-	-	-	23,603	23,603
Water/wastewater/drainage facilities	-	-	-	-	20,457,807	20,457,807
TOTAL ASSETS	\$ 2,299,388	\$ 542,844	\$ 218,848	\$ 3,061,080	20,465,251	23,526,331
<u>DEFERRED OUTFLOWS OF RESOURCES</u>						
Deferred charges om refundings	-	-	-	-	661,083	661,083
TOTAL DEFERRED OUTFLOWS OF RESOURCES	-	-	-	-	661,083	661,083
<u>LIABILITIES</u>						
Accounts payable	\$ 171,365	\$ 61	\$ -	\$ 171,426	\$ -	\$ 171,426
Accrued interest payable	-	-	-	-	84,438	84,438
Refundable deposits	205,791	-	-	205,791	-	205,791
Interfund payables	-	9,558	6,601	16,159	(16,159)	-
Due to developer	-	-	1,309	1,309	-	1,309
Bonds payable -						
Due within one year	-	-	-	-	785,000	785,000
Due after one year	-	-	-	-	26,361,244	26,361,244
TOTAL LIABILITIES	377,156	9,619	7,910	394,685	27,214,523	27,609,208
<u>DEFERRED INFLOWS OF RESOURCES</u>						
Property Taxes	1,014	6,474	-	7,488	(7,488)	-
TOTAL DEFERRED INFLOWS OF RESOURCES	1,014	6,474	-	7,488	(7,488)	-
<u>FUND BALANCES / NET POSITION</u>						
Fund balances:						
Restricted for debt service	-	526,751	-	526,751	(526,751)	-
Restricted for capital projects	-	-	210,938	210,938	(210,938)	-
Unassigned	1,921,218	-	-	1,921,218	(1,921,218)	-
TOTAL FUND BALANCES	1,921,218	526,751	210,938	2,658,907	(2,658,907)	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,299,388	\$ 542,844	\$ 218,848	\$ 3,061,080		
<u>NET POSITION</u>						
Net investment in capital assets					(5,792,813)	(5,792,813)
Restricted for debt service					448,787	448,787
Unrestricted					1,922,232	1,922,232
TOTAL NET POSITION					\$ (3,421,794)	\$ (3,421,794)

The accompanying notes are an integral part of this statement.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
SEPTEMBER 30, 2013**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
REVENUES:						
Service revenues, including penalties	\$ 1,775,209	\$ -	\$ -	\$ 1,775,209	\$ -	\$ 1,775,209
System connection / inspection fees	158,550	-	-	158,550	-	158,550
Property taxes, including penalties	312,024	1,654,094	-	1,966,118	(616)	1,965,502
Interest	6,969	3,251	233	10,453	-	10,453
Other	125	-	-	125	-	125
TOTAL REVENUES	2,252,877	1,657,345	233	3,910,455	(616)	3,909,839
EXPENDITURES / EXPENSES:						
Current:						
Water / wastewater purchases	1,170,023	-	-	1,170,023	-	1,170,023
Garbage collection fees	137,376	-	-	137,376	-	137,376
Tap connection / inspection	65,099	-	-	65,099	-	65,099
Repairs and maintenance	92,104	-	-	92,104	-	92,104
Utilities	32,238	-	-	32,238	-	32,238
Director fees, including payroll taxes and reimbursements	7,751	-	-	7,751	-	7,751
Legal fees	50,366	-	-	50,366	-	50,366
Engineering fees	39,756	-	-	39,756	-	39,756
Operations / management fees	119,146	-	-	119,146	-	119,146
Bookkeeping fees	24,750	-	-	24,750	-	24,750
Audit fees	14,500	-	-	14,500	-	14,500
Insurance	2,706	-	-	2,706	-	2,706
Tax appraisal / collection	2,340	12,384	-	14,724	-	14,724
Financial advisor fees	382	2,019	-	2,401	-	2,401
Other	7,428	5,015	-	12,443	-	12,443
Debt service:						
Principal	-	810,000	-	810,000	(810,000)	-
Interest	-	1,028,557	-	1,028,557	(715)	1,027,842
Fiscal agent fees and other	-	3,700	-	3,700	-	3,700
Bond issuance costs	-	119,413	276,886	396,299	-	396,299
Capital outlay	-	-	2,472,623	2,472,623	(2,472,623)	-
Depreciation	-	-	-	-	449,073	449,073
Amortization	-	-	-	-	750,275	750,275
TOTAL EXPENDITURES / EXPENSES	1,765,965	1,981,088	2,749,509	6,496,562	(2,083,990)	4,412,572
Excess / (deficiency) of revenues over (under) expenditures	486,912	(323,743)	(2,749,276)	(2,586,107)	2,083,374	(502,733)
OTHER FINANCING SOURCES/(USES):						
Proceeds from sale of bonds	-	97,567	2,852,433	2,950,000	(2,950,000)	-
Discount on sale of bonds	-	-	(25,360)	(25,360)	25,360	-
Premium on sale of bonds	-	2,878	-	2,878	(2,878)	-
Proceeds from refunding bonds	-	2,585,000	-	2,585,000	(2,585,000)	-
Payment to refunding bond escrow agent	-	(2,462,652)	-	(2,462,652)	2,462,652	-
TOTAL OTHER FINANCING SOURCES	-	222,793	2,827,073	3,049,866	(3,049,866)	-
Change in fund balances / net position	486,912	(100,950)	77,797	463,759	(966,492)	(502,733)
FUND BALANCES / NET POSITION:						
Beginning of the year	1,434,306	627,701	133,141	2,195,148	(3,660,965)	(1,465,817)
Prior period adjustment	-	-	-	-	(1,453,244)	(1,453,244)
End of the year	<u>\$ 1,921,218</u>	<u>\$ 526,751</u>	<u>\$ 210,938</u>	<u>\$ 2,658,907</u>	<u>\$ (6,080,701)</u>	<u>\$ (3,421,794)</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE BASIC
FINANCIAL STATEMENTS**

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Williamson County Water, Sewer, Irrigation and Drainage District No. 3 (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. GAAP for local governments 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 by an order of the Texas State Legislature and passed by the 70th Legislature on May 15, 1987. The District operates under Chapters 49 and 54 of the Texas Water Code pursuant to Article 16, Section 59 of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the "Board") which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District's reporting entity.

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

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

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

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

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

Basis of Accounting

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

- **Governmental Funds (continued) -**

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

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

Expenditures, if measurable, are generally recognized on the accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include the unmatured principal and interest on general obligation long-term debt which is recognized when due. This exception is in conformity with 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. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end are reported as deferred inflows of resources.

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Budgets and Budgetary Accounting - A budget was adopted on September 12, 2012, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year-end.

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

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

Capital assets (other than land) are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Water, Wastewater and Drainage Facilities	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 - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred over the life of the bonds. Bonds payable are reported net of the applicable bond premiums or discounts.

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Fund Equity - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 11 for additional information on those fund balance classifications.

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS

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

Fund balances - total governmental funds		\$ 2,658,907
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds -		
Capital assets	22,471,073	
Less: Accumulated depreciation	<u>(1,989,663)</u>	20,481,410
Revenue is recognized when earned in the government statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		7,488
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds -		
Bonds payable	(27,110,000)	
Bond issuance discount, net	226,301	
Bond issuance premium, net	(262,545)	
Deferred charges on refunding, net	661,083	
Accrued interest	<u>(84,438)</u>	<u>(26,569,599)</u>
Net position of governmental activities		<u>\$ (3,421,794)</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS (continued) -

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

Changes in fund balances - governmental funds		\$ 463,759
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Capital expenditures in year paid	2,472,623	
Bond principal in year paid	810,000	
Interest expenditures in year paid	715	
Tax revenue when collected	(616)	
Bond sales and refunding activity and related bond discount and premium as other financing source/(use)	<u>(3,049,866)</u>	232,856
Governmental funds do not report -		
Depreciation	(449,073)	
Amortization of bond discounts	(92,497)	
Amortization of bond premiums	15,001	
Amortization of deferred charges on refundings	<u>(672,779)</u>	<u>(1,199,348)</u>
Change in net position of governmental activities		<u>\$ (502,733)</u>

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

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

Cash - At September 30, 2013, the carrying amount of the District's deposits was \$478,896 and the bank balance was \$548,161. The bank balance was covered by federal depository insurance and other pledged collateral.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -

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.

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

<u>Investment</u>	<u>Fair Market Value at 9/30/2013</u>	<u>Weighted Average Maturity (Days)</u>	<u>Investment Rating</u>	
			<u>Rating</u>	<u>Rating Agency</u>
TexPool	\$ 704,542	1	AAA	Standard & Poors
Certificates of deposit	1,620,000	110	Various	Various
	<u>\$2,324,542</u>			

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -

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

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

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

4. PROPERTY TAXES

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

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2012 tax roll. The tax rate, based on total taxable assessed valuation of \$241,530,178 was \$0.815 on each \$100 valuation and was allocated to the General Fund and Debt Service Fund at \$0.1295 and \$0.6855, respectively. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 13, 2000.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

4. PROPERTY TAXES (continued) -

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

	General Fund	Debt Service Fund	Total
Current year levy	\$ 662	\$ 3,504	\$ 4,166
Prior years' levies	352	2,970	3,322
	<u>\$ 1,014</u>	<u>\$ 6,474</u>	<u>\$ 7,488</u>

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

5. INTERFUND ACCOUNTS

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

	Interfund Receivables	Payables
General Fund:		
Debt Service Fund	\$ 8,358	\$ -
Capital Projects Fund	6,601	-
Debt Service Fund -		
General Fund	-	8,358
Capital Projects Fund	-	1,200
Capital Projects Fund -		
General Fund	-	6,601
Debt Service Fund	1,200	-
	<u>\$ 16,159</u>	<u>\$ 16,159</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 10/1/2012	Additions	Deletions	Balance 9/30/2013
Capital assets:				
Land	\$ -	\$ 23,603	\$ -	\$ 23,603
Water/Wastewater/Drainage Facilities	19,998,450	2,449,020	-	22,447,470
Total capital assets	19,998,450	2,472,623	-	22,471,073
Less accumulated depreciation for:				
Water/Wastewater/Drainage Facilities	(1,540,590)	(449,073)	-	(1,989,663)
Total accumulated depreciation	(1,540,590)	(449,073)	-	(1,989,663)
Total capital assets, net of accumulated depreciation	\$ 18,457,860	\$ 2,023,550	\$ -	\$ 20,481,410

7. DEFERRED OUTFLOWS OF RESOURCES

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

Deferred charges on bond refundings - September 30, 2012	\$ 1,096,210
Additions from Series 2013 refundings	237,652
Retirements from Series 2013, Series 2012, and Series 2010 refundings	(672,779)
Deferred charges on bond refundings - September 30, 2013	<u>\$ 661,083</u>

8. BONDED DEBT

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

	Combination Unlimited Tax and Revenue
Bonds payable at October 1, 2012	\$ 24,610,000
Bonds issued	5,535,000
Bonds refunded	(2,225,000)
Bonds retired	(810,000)
Bond discounts, net of accumulated amortization	(226,301)
Bond premiums, net of accumulated amortization	262,545
Bonds payable at September 30, 2013	<u>\$ 27,146,244</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

8. BONDED DEBT (continued) -

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

Unlimited Tax Bonds:

\$6,250,000 - 2007 Unlimited Tax Bonds partially refunded and payable serially through the year 2014 at interest rates which range from 5.00% to 6.50%.

\$5,225,000 - 2008 Unlimited Tax Bonds partially refunded and payable serially through the year 2015 at interest rates which range from 6.00% to 7.50%.

\$4,900,000 - 2009 Unlimited Tax Bonds payable serially through the year 2033 at interest rates which range from 4.30% to 6.25%.

\$2,500,000 - 2010A Unlimited Tax Bonds payable serially through the year 2034 at interest rates which range from 2.00% to 5.10%.

\$2,000,000 - 2011 Unlimited Tax Bonds payable serially through the year 2035 at interest rates which range from 2.75% to 4.50%.

\$2,950,000 - 2013 Unlimited Tax Bonds payable serially through the year 2036 at interest rates which range from 3.00% to 4.00%.

Unlimited Tax Refunding Bonds:

\$4,350,000 - 2010 Unlimited Tax Refunding Bonds payable serially through the year 2032 at interest rates which range from 3.00% to 4.70%.

\$8,290,000 - 2012 Unlimited Tax Refunding Bonds payable serially through the year 2030 at interest rates which range from 2.00% to 4.00%.

\$2,585,000 - 2013A Unlimited Tax Refunding Bonds payable serially through the year 2031 at interest rates which range from 2.00% to 3.125%.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

8. BONDED DEBT (continued) -

On January 9, 2013, the District issued \$2,950,000 in Unlimited Tax Bonds, Series 2013, with interest rates ranging from 2.00% to 4.00%. The net proceeds of \$2,863,560 (after payment of underwriting fees, insurance and other issuance costs) were deposited in the District's investment account to provide payments for capital assets and future debt service payments.

On February 20, 2013, the District issued \$2,585,000 of Unlimited Tax Refunding Bonds, Series 2013A, to currently refund \$265,000, \$1,625,000, and \$335,000 of its previously issued Series 2006, Series 2007, and Series 2008 bonds, respectively, in order to lower its overall debt service requirements. The net proceeds of \$2,471,984 (after payment of the underwriting fees, insurance and other issuance costs) were used for the following: \$2,462,652 was deposited with an escrow agent to provide the debt service payment on the portion of bonds currently refunded and \$9,332 was deposited in the debt service fund for future interest and principal payments. As a result, \$2,225,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements. At September 30, 2013, \$1,960,000 of the \$2,225,000 bonds refunded are considered defeased as \$265,000 of the refunded principal balances were retired prior to year end. The reacquisition price exceeded the net carrying amount of the old debt by \$237,652; this amount is netted against the new debt and amortized over the life of the refunded debt which is shorter than the life of the new debt issued. The advance refunding resulted in an economic gain of \$128,719.

In prior years, the District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At September 30, 2013, outstanding bonds of \$9,465,000 are considered defeased.

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

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2014	\$ 785,000	\$ 1,054,018	\$ 1,839,018
2015	830,000	1,018,542	1,848,542
2016	870,000	989,593	1,859,593
2017	900,000	964,880	1,864,880
2018	900,000	938,942	1,838,942
2019 - 2023	5,515,000	4,193,360	9,708,360
2024 - 2028	7,225,000	3,035,785	10,260,785
2029 - 2033	7,295,000	1,477,704	8,772,704
2034 - 2036	2,790,000	189,945	2,979,945
	<u>\$ 27,110,000</u>	<u>\$ 13,862,769</u>	<u>\$ 40,972,769</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

8. BONDED DEBT (continued) -

\$526,751 is available in the Debt Service Fund to service the bonded debt. Bonds authorized but not issued amounted to \$13,450,000 at September 30, 2013.

9. 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 developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality, or from operations. On November 7, 2000, a bond election held within the District approved authorization to issue \$31,345,000 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 May 12, 2012, a bond election held within the District approved authorization to issue an additional \$9,805,000 of bonds to fund system facilities. As of September 30, 2013, the District has issued \$27,700,000 of Unlimited Tax Bonds to reimburse the developer for water, wastewater and drainage improvements.

10. RISK MANAGEMENT

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

11. FUND BALANCES

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

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

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2013**

12. INTERLOCAL AGREEMENT

On January 11, 2012, the District entered into an "Agreement Concerning Management and Operation of District Facilities" with Williamson County Municipal Utility District No. 22 ("District No. 22"). Pursuant to this agreement, the District agrees to provide water and wastewater service to customers within the boundaries of both Districts. The District agreed to maintain separate accounting for revenues received from District No. 22 customers. Such revenues are used to compensate the District for the costs of providing services to District No. 22 customers. As of September 30, 2013, District No. 22 owed the District \$14,380 for collected revenues, net of allocated operating expenses.

13. PRIOR PERIOD ADJUSTMENT

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

Net Position - October 1, 2012	\$ (1,465,817)
Effect of Adjustments	<u>(1,453,244)</u>
New Position - October 1, 2012, as restated	<u><u>\$ (2,919,061)</u></u>

14. SUBSEQUENT EVENTS

On November 20, 2013, the District issued \$3,675,000 of Unlimited Tax Bonds to finance the acquisition of water, wastewater and drainage facilities from developers. The interest rates on the bonds range from 4.625% to 6.0% and the maturity date is September 1, 2037.

**REQUIRED
SUPPLEMENTAL INFORMATION**

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2013**

	<u>Actual</u>	<u>Original Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:			
Service revenues, including penalties	\$ 1,775,209	\$ 1,601,404	\$ 173,805
System connection / inspection fees	158,550	91,000	67,550
Property taxes, including penalties	312,024	304,391	7,633
Interest	6,969	3,000	3,969
Other	125	3,000	(2,875)
TOTAL REVENUES	<u>2,252,877</u>	<u>2,002,795</u>	<u>250,082</u>
EXPENDITURES:			
Current:			
Water / wastewater purchases	1,170,023	1,148,411	(21,612)
Garbage collection fees	137,376	134,199	(3,177)
Tap connection / inspection fees	65,099	34,125	(30,974)
Repairs and maintenance	92,104	87,225	(4,879)
Utilities	32,238	33,000	762
Director fees, including payroll taxes and reimbursements	7,751	9,779	2,028
Legal fees	50,366	70,000	19,634
Engineering fees	39,756	85,000	45,244
Operations / management fees	119,146	111,701	(7,445)
Bookkeeping fees	24,750	24,750	-
Audit fees	14,500	14,500	-
Insurance	2,706	2,500	(206)
Tax appraisal / collection	2,340	4,000	1,660
Financial advisor fees	382	397	15
Other	7,428	15,300	7,872
Capital outlay	-	99,779	99,779
TOTAL EXPENDITURES	<u>1,765,965</u>	<u>1,874,666</u>	<u>108,701</u>
Excess of revenues over expenditures	<u>\$ 486,912</u>	<u>\$ 128,129</u>	<u>\$ 358,783</u>
FUND BALANCE:			
Beginning of the year	<u>1,434,306</u>		
End of the year	<u>\$ 1,921,218</u>		

TEXAS
SUPPLEMENTAL INFORMATION

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2013**

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

- | | | |
|---|---|--|
| ☒ Retail Water | ☐ Wholesale Water | ☒ Drainage |
| ☒ Retail Wastewater | ☐ Wholesale Wastewater | ☒ Irrigation |
| ☐ Parks/Recreation | ☐ Fire Protection | ☐ Security |
| ☒ Solid Waste/Garbage | ☐ Flood Control | ☐ Roads |
| ☐ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | |
| ☐ 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 (RES.):	\$ 34.70 ⁽¹⁾	2,000	N	\$ 4.00	2,001 - 15,000
				\$ 5.25	Over 15,001
WATER (COM.):	\$ 15.00 ⁽¹⁾		N	\$ 4.00	0 - 15,000
				\$ 5.25	Over 15,001
WASTEWATER (RES.):	\$ 56.74		Y	\$ 5.03	Unlimited
WASTEWATER (COM.):	\$ 56.74		Y	\$ 5.03	Unlimited

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

Total charges per 10,000 gallons usage: Water \$ 66.70 ⁽¹⁾ Wastewater \$ 107.04

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	0.0	0.0	1.0	0.0
< 3/4"	1094.0	1084.0	1.0	1084.0
1"	2.0	2.0	2.5	5.0
1 1/2"	2.0	2.0	5.0	10.0
2"	5.0	5.0	8.0	40.0
3"	2.0	2.0	15.0	30.0
4"	1.0	1.0	25.0	25.0
6"	0.0	0.0	50.0	0.0
8"	0.0	0.0	80.0	0.0
10"	0.0	0.0	115.0	0.0
Total Water	1106.0	1096.0		1194.0
Total Wastewater	1103.0	1093.0	1.0	1093.0

⁽¹⁾ Water Usage and Solid Waste Pick-Up Charge Per Fee Unit.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2013**

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

Gallons pumped into system: 125,989

Gallons billed to customers: 135,289

Water Accountability Ratio

(Gallons billed / Gallons Pumped)

107.4%

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, Williamson

Is the District located entirely within one county? Yes ☐ No ☒

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

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

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which district is located: Hutto

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? N/A

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2013**

Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	14,500
Legal	50,366
Engineering	39,756
Financial Advisor	382
Purchased Services for Resale:	
Bulk Water and Wastewater Purchases	1,170,023
Contracted Services:	
Bookkeeping	24,750
General Manager	119,146
Appraisal District/Tax Collector	2,340
Other Contracted Services	-
Utilities	32,238
Repairs and Maintenance	92,104
Administrative Expenditures:	
Directors' Fees	7,751
Office Supplies	-
Insurance	2,706
Other Administrative Expenditures	-
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	-
Tap Connection Expenditures	65,099
Solid Waste Disposal	137,376
Fire Fighting	-
Parks and Recreation	-
Other Expenditures	7,428
TOTAL EXPENDITURES	\$ 1,765,965

Number of persons employed by the District:

☐ Full-Time

☒ Part-Time

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2013**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund -					
TexPool	XXX0001	Varies	Daily	\$ 196,116	\$ -
Certificate of deposit	XXX0825	0.5000%	12/4/2013	245,000	394
Certificate of deposit	XXX3564	0.4000%	12/10/2013	245,000	291
Certificate of deposit	XXX5115	0.5000%	12/29/2013	245,000	302
Certificate of deposit	XXX3073	0.2500%	2/14/2014	245,000	76
Certificate of deposit	XXX0310	0.3000%	3/17/2014	150,000	17
Certificate of deposit	XXX6884	0.4000%	6/17/2014	245,000	35
Total General Fund				1,571,116	1,115
Debt Service Fund -					
TexPool	XXX0002	Varies	Daily	5,523	-
TexPool	XXX0003	Varies	Daily	228,593	-
TexPool	XXX0015	Varies	Daily	23,783	-
TexPool	XXX0016	Varies	Daily	32,879	-
Certificate of deposit	XXX5150	0.5000%	10/3/2013	245,000	592
Total Debt Service Fund				535,778	592
Capital Projects Fund -					
TexPool	XXX0007	Varies	Daily	95,188	-
TexPool	XXX0009	Varies	Daily	1,684	-
TexPool	XXX0012	Varies	Daily	10,287	-
TexPool	XXX0014	Varies	Daily	29,183	-
TexPool	XXX0017	Varies	Daily	81,306	-
Total Capital Projects Fund				217,648	-
Total - All Funds				\$ 2,324,542	\$ 1,707

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2013**

			<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
Taxes Receivable, Beginning of Year			\$ 792	\$ 7,312
2012 Original tax levy, less abatements			311,780	1,650,389
Tax adjustments			<u>207</u>	<u>1,095</u>
Total to be accounted for			<u>312,779</u>	<u>1,658,796</u>
Tax collections:				
Current year			311,325	1,647,980
Prior years			<u>440</u>	<u>4,342</u>
Total collections			<u>311,765</u>	<u>1,652,322</u>
Taxes Receivable, End of Year			<u><u>\$ 1,014</u></u>	<u><u>\$ 6,474</u></u>
Taxes Receivable, by Years				
2010 and prior			\$ 193	\$ 1,396
2011			159	1,574
2012			<u>662</u>	<u>3,504</u>
Taxes Receivable, End of Year			<u><u>\$ 1,014</u></u>	<u><u>\$ 6,474</u></u>
Property Valuations:	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Land and improvements	<u>\$ 241,530,178</u>	<u>\$ 209,800,052</u>	<u>\$ 192,840,889</u>	<u>\$ 160,646,235</u>
Total Property Valuations	<u><u>\$ 241,530,178</u></u>	<u><u>\$ 209,800,052</u></u>	<u><u>\$ 192,840,889</u></u>	<u><u>\$ 160,646,235</u></u>
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.1295	\$ 0.0749	\$ 0.0963	\$ 0.1933
Debt Service tax rates	<u>0.6855</u>	<u>0.7401</u>	<u>0.7187</u>	<u>0.6066</u>
Total Tax Rates per \$100 Valuation:	<u><u>\$ 0.8150</u></u>	<u><u>\$ 0.8150</u></u>	<u><u>\$ 0.8150</u></u>	<u><u>\$ 0.7999</u></u>
Original Tax Levy	<u><u>\$ 1,962,169</u></u>	<u><u>\$ 1,709,870</u></u>	<u><u>\$ 1,571,653</u></u>	<u><u>\$ 1,285,009</u></u>
Percent of Taxes Collected to Taxes Levied **	<u><u>99.8%</u></u>	<u><u>99.9%</u></u>	<u><u>99.9%</u></u>	<u><u>99.9%</u></u>
Maximum Tax Rate Approved by Voters:	<u><u>\$ 1.00</u></u>	<u><u>on 11/13/2000</u></u>		

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

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2013**

Fiscal Year Ending	Unlimited Tax Bonds Series 2007			Unlimited Tax Bonds Series 2008			Unlimited Tax Bonds Series 2009			Unlimited Tax Refunding Bonds Series 2010			Unlimited Tax Bonds Series 2010A		
	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 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total
2014	\$ 175,000	\$ 11,375	\$ 186,375	\$ 145,000	\$ 18,000	\$ 163,000	\$ 125,000	\$ 230,219	\$ 355,219	\$ 55,000	\$ 176,853	\$ 231,853	\$ 5,000	\$ 120,658	\$ 125,658
2015	-	-	-	155,000	9,300	164,300	125,000	222,406	347,406	60,000	175,203	235,203	5,000	120,458	125,458
2016	-	-	-	-	-	-	150,000	214,594	364,594	60,000	173,403	233,403	5,000	120,258	125,258
2017	-	-	-	-	-	-	150,000	205,219	355,219	60,000	171,603	231,603	5,000	120,058	125,058
2018	-	-	-	-	-	-	150,000	195,844	345,844	65,000	169,203	234,203	5,000	119,845	124,845
2019	-	-	-	-	-	-	175,000	186,469	361,469	65,000	166,603	231,603	5,000	119,633	124,633
2020	-	-	-	-	-	-	175,000	175,531	350,531	70,000	164,003	234,003	5,000	119,420	124,420
2021	-	-	-	-	-	-	175,000	164,594	339,594	70,000	161,203	231,203	5,000	119,208	124,208
2022	-	-	-	-	-	-	200,000	153,656	353,656	295,000	158,403	453,403	100,000	118,995	218,995
2023	-	-	-	-	-	-	200,000	145,056	345,056	305,000	146,603	451,603	100,000	114,620	214,620
2024	-	-	-	-	-	-	225,000	136,256	361,256	310,000	134,098	444,098	100,000	110,245	210,245
2025	-	-	-	-	-	-	225,000	126,131	351,131	310,000	121,078	431,078	125,000	105,870	230,870
2026	-	-	-	-	-	-	250,000	115,781	365,781	320,000	107,903	427,903	125,000	100,089	225,089
2027	-	-	-	-	-	-	250,000	104,031	354,031	325,000	94,143	419,143	150,000	94,308	244,308
2028	-	-	-	-	-	-	275,000	92,469	367,469	335,000	79,843	414,843	150,000	87,370	237,370
2029	-	-	-	-	-	-	300,000	79,750	379,750	340,000	64,768	404,768	175,000	80,058	255,058
2030	-	-	-	-	-	-	300,000	65,500	365,500	345,000	49,298	394,298	175,000	71,526	246,526
2031	-	-	-	-	-	-	325,000	51,250	376,250	355,000	33,428	388,428	200,000	62,995	262,995
2032	-	-	-	-	-	-	350,000	35,000	385,000	360,000	16,920	376,920	300,000	52,995	352,995
2033	-	-	-	-	-	-	350,000	17,500	367,500	-	-	-	350,000	37,995	387,995
2034	-	-	-	-	-	-	-	-	-	-	-	-	395,000	20,145	415,145
2035	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 175,000</u>	<u>\$ 11,375</u>	<u>\$ 186,375</u>	<u>\$ 300,000</u>	<u>\$ 27,300</u>	<u>\$ 327,300</u>	<u>\$ 4,475,000</u>	<u>\$ 2,717,256</u>	<u>\$ 7,192,256</u>	<u>\$ 4,105,000</u>	<u>\$ 2,364,559</u>	<u>\$ 6,469,559</u>	<u>\$ 2,485,000</u>	<u>\$ 2,016,749</u>	<u>\$ 4,501,749</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2013**

Fiscal Year Ending	Unlimited Tax Bonds Series 2011			Unlimited Tax Refunding Bonds Series 2012			Unlimited Tax Bonds Series 2013			Unlimited Tax Refunding Bonds Series 2013A			Annual Requirements for All Series		
	Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due	
	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total
2014	\$ 5,000	\$ 88,694	\$ 93,694	\$ 100,000	\$ 251,400	\$ 351,400	\$ 5,000	\$ 92,488	\$ 97,488	\$ 170,000	\$ 64,331	\$ 234,331	\$ 785,000	\$ 1,054,018	\$ 1,839,018
2015	5,000	88,556	93,556	100,000	249,400	349,400	5,000	92,288	97,288	375,000	60,931	435,931	830,000	1,018,542	1,848,542
2016	5,000	88,419	93,419	245,000	247,400	492,400	10,000	92,088	102,088	395,000	53,431	448,431	870,000	989,593	1,859,593
2017	5,000	88,281	93,281	480,000	242,500	722,500	10,000	91,688	101,688	190,000	45,531	235,531	900,000	964,880	1,864,880
2018	5,000	88,131	93,131	655,000	232,900	887,900	10,000	91,288	101,288	10,000	41,731	51,731	900,000	938,942	1,838,942
2019	5,000	87,981	92,981	685,000	219,800	904,800	10,000	90,888	100,888	10,000	41,531	51,531	955,000	912,905	1,867,905
2020	5,000	87,831	92,831	685,000	199,250	884,250	20,000	90,488	110,488	10,000	41,331	51,331	970,000	877,854	1,847,854
2021	5,000	87,681	92,681	715,000	178,700	893,700	100,000	89,688	189,688	10,000	41,031	51,031	1,080,000	842,105	1,922,105
2022	5,000	87,531	92,531	500,000	157,250	657,250	125,000	85,688	210,688	10,000	40,731	50,731	1,235,000	802,254	2,037,254
2023	5,000	87,344	92,344	530,000	142,250	672,250	125,000	81,938	206,938	10,000	40,431	50,431	1,275,000	758,242	2,033,242
2024	5,000	87,156	92,156	530,000	126,350	656,350	125,000	78,188	203,188	15,000	40,131	55,131	1,310,000	712,424	2,022,424
2025	5,000	86,969	91,969	555,000	110,450	665,450	150,000	74,438	224,438	15,000	39,681	54,681	1,385,000	664,617	2,049,617
2026	5,000	86,781	91,781	580,000	93,800	673,800	150,000	69,938	219,938	15,000	39,231	54,231	1,445,000	613,523	2,058,523
2027	5,000	86,594	91,594	615,000	70,600	685,600	150,000	65,438	215,438	15,000	38,781	53,781	1,510,000	553,895	2,063,895
2028	5,000	86,375	91,375	645,000	46,000	691,000	150,000	60,938	210,938	15,000	38,331	53,331	1,575,000	491,326	2,066,326
2029	5,000	86,156	91,156	245,000	20,200	265,200	175,000	56,438	231,438	415,000	37,881	452,881	1,655,000	425,251	2,080,251
2030	5,000	85,938	90,938	260,000	10,400	270,400	200,000	51,188	251,188	405,000	25,431	430,431	1,690,000	359,281	2,049,281
2031	5,000	85,719	90,719	-	-	-	225,000	45,188	270,188	425,000	13,281	438,281	1,535,000	291,861	1,826,861
2032	5,000	85,500	90,500	-	-	-	225,000	38,438	263,438	-	-	-	1,240,000	228,853	1,468,853
2033	250,000	85,275	335,275	-	-	-	225,000	31,688	256,688	-	-	-	1,175,000	172,458	1,347,458
2034	600,000	74,025	674,025	-	-	-	250,000	24,375	274,375	-	-	-	1,245,000	118,545	1,363,545
2035	1,045,000	47,025	1,092,025	-	-	-	250,000	16,250	266,250	-	-	-	1,295,000	63,275	1,358,275
2036	-	-	-	-	-	-	250,000	8,125	258,125	-	-	-	250,000	8,125	258,125
	<u>\$ 1,990,000</u>	<u>\$ 1,863,962</u>	<u>\$ 3,853,962</u>	<u>\$ 8,125,000</u>	<u>\$ 2,598,650</u>	<u>\$ 10,723,650</u>	<u>\$ 2,945,000</u>	<u>\$ 1,519,160</u>	<u>\$ 4,464,160</u>	<u>\$ 2,510,000</u>	<u>\$ 743,758</u>	<u>\$ 3,253,758</u>	<u>\$ 27,110,000</u>	<u>\$ 13,862,769</u>	<u>\$ 40,972,769</u>

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2013**

	Bond Issue										
	Series 2006	Series 2007	Series 2008	Series 2009	Series 2010	Series 2010A	Series 2011	Series 2012	Series 2013	Series 2013A	Total
Interest Rate	3.70% - 4.85%	5.00% - 6.50%	6.00% - 7.50%	4.30% - 6.25%	3.00% - 4.70%	2.00% - 5.10%	2.75% - 4.50%	2.00% - 4.00%	3.00% - 4.00%	2.00% - 3.125%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2013	9/1/2014	9/1/2015	9/1/2033	9/1/2032	9/1/2034	9/1/2035	9/1/2030	9/1/2036	9/1/2036	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 390,000	\$ 1,975,000	\$ 775,000	\$ 4,600,000	\$ 4,160,000	\$ 2,490,000	\$ 1,995,000	\$ 8,225,000	\$ -	\$ -	\$ 24,610,000
Bonds Sold During the Current Fiscal Year	-	-	-	-	-	-	-	-	2,950,000	2,585,000	5,535,000
Retirements During the Current Fiscal Year:											
Refunded	(265,000)	(1,625,000)	(335,000)	-	-	-	-	-	-	-	(2,225,000)
Principal	(125,000)	(175,000)	(140,000)	(125,000)	(55,000)	(5,000)	(5,000)	(100,000)	(5,000)	(75,000)	(810,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ -</u>	<u>\$ 175,000</u>	<u>\$ 300,000</u>	<u>\$ 4,475,000</u>	<u>\$ 4,105,000</u>	<u>\$ 2,485,000</u>	<u>\$ 1,990,000</u>	<u>\$ 8,125,000</u>	<u>\$ 2,945,000</u>	<u>\$ 2,510,000</u>	<u>\$ 27,110,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 5,126</u>	<u>\$ 22,750</u>	<u>\$ 26,400</u>	<u>\$ 238,032</u>	<u>\$ 178,502</u>	<u>\$ 120,858</u>	<u>\$ 88,832</u>	<u>\$ 253,400</u>	<u>\$ 59,732</u>	<u>\$ 34,925</u>	<u>\$ 1,028,557</u>
Paying Agent's Name & Address:	Bank of Texas										
	Austin, TX										
Bond Authority:	Tax Bonds*	Other Bonds	Refunding Bonds								
Amount Authorized by Voters	\$ 41,150,000	\$ -	\$ 61,725,000								
Amount Issued	27,700,000	-	2,662,191								
Remaining to be Issued	<u>\$ 13,450,000</u>	<u>\$ -</u>	<u>\$ 59,062,809</u>								

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

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2013: \$ 535,778

Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt: \$ 1,781,425

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS
SEPTEMBER 30, 2013**

	Amounts					Percent of Fund Total Revenues				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
GENERAL FUND REVENUES & OTHER SOURCES -										
Property taxes, including penalties	\$ 312,024	\$ 158,640	\$ 178,533	\$ 328,621	\$ 235,907	13.9%	8.4%	9.9%	20.7%	17.6%
Service revenues, including penalties	1,775,209	1,603,979	1,525,765	1,181,014	890,296	78.7%	85.3%	84.4%	74.5%	66.5%
System connection / inspection fees	158,550	111,850	94,500	69,750	197,831	7.0%	5.9%	5.2%	4.4%	14.9%
Interest	6,969	5,600	7,910	5,403	13,897	0.4%	0.4%	0.5%	0.4%	1.0%
Other	125	70	538	756	256	-	-	-	-	-
TOTAL GENERAL FUND REVENUES & OTHER SOURCES	2,252,877	1,880,139	1,807,246	1,585,544	1,338,187	100.0%	100.0%	100.0%	100.0%	100.0%
GENERAL FUND EXPENDITURES & OTHER USES-										
Current -										
Water / wastewater purchases	1,170,023	1,116,796	1,065,565	782,411	542,730	51.9%	59.4%	59.0%	49.3%	40.6%
Garbage collection fees	137,376	118,065	104,419	91,259	77,755	6.1%	6.3%	5.8%	5.8%	5.8%
Repairs and maintenance	92,104	108,365	88,936	101,096	40,025	4.1%	5.8%	4.9%	6.4%	3.0%
Tap connection / inspection fees	65,099	43,825	28,830	82,550	107,822	2.9%	2.3%	1.6%	5.2%	8.1%
Utilities	32,238	41,646	31,759	31,629	34,827	1.4%	2.2%	1.8%	2.0%	2.6%
Director fees, including payroll taxes and reimbursements	7,751	8,235	9,204	8,558	8,003	0.3%	0.4%	0.5%	0.5%	0.6%
Legal fees	50,366	63,042	63,611	55,364	58,852	2.2%	3.4%	3.5%	3.5%	4.4%
Engineering fees	39,756	36,256	49,080	21,351	111,345	1.8%	1.9%	2.7%	1.3%	8.3%
Operations / management fees	119,146	104,314	96,363	91,628	85,824	5.3%	5.5%	5.3%	5.8%	6.4%
Bookkeeping fees	24,750	24,750	24,750	35,365	43,855	1.1%	1.3%	1.4%	2.2%	0.03
Audit fees	14,500	18,000	22,500	29,500	22,119	0.6%	1.0%	1.2%	1.9%	1.7%
Insurance	2,706	2,065	1,762	1,926	2,248	0.1%	0.1%	0.1%	0.1%	0.2%
Tax appraisal / collection	2,340	1,208	1,399	2,322	1,710	0.1%	0.1%	0.1%	0.1%	0.1%
Financial advisor fees	382	244	267	552	1,540	-	-	-	0.0%	0.1%
Other	7,428	23,876	10,234	18,863	50,737	0.3%	1.3%	0.6%	1.2%	3.8%
Capital Outlay	-	-	13,905	-	29,574	-	-	0.8%	-	2.1%
Operating transfer	-	-	200,000	-	-	-	-	11.1%	-	-
TOTAL GENERAL FUND EXPENDITURES & OTHER USES	1,765,965	1,710,687	1,812,584	1,354,374	1,218,966	78.2%	91.0%	100.3%	85.4%	91.1%
EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES & OTHER USES	\$ 486,912	\$ 169,452	\$ (5,338)	\$ 231,170	\$ 119,221	21.8%	9.0%	-0.3%	14.6%	8.9%
DEBT SERVICE FUND REVENUES & OTHER SOURCES-										
Property taxes, including penalties	\$ 1,654,094	\$ 1,552,970	\$ 1,317,863	\$ 941,270	\$ 577,916	88.1%	84.0%	78.0%	50.8%	44.7%
Interest	3,251	4,403	4,991	3,915	9,981	0.2%	0.3%	0.3%	0.2%	0.8%
Proceeds from refunding, net of payment to escrow agent	122,348	107,651	-	252,481	-	6.5%	5.8%	-	13.6%	-
Operating transfer	-	-	200,000	-	-	-	-	11.8%	-	-
Bond proceeds	97,567	183,921	166,621	656,257	705,375	5.2%	9.9%	9.9%	35.4%	54.5%
TOTAL DEBT SERVICE FUND REVENUES & OTHER SOURCES	1,877,260	1,848,945	1,689,475	1,853,923	1,293,272	100.0%	100.0%	100.0%	100.0%	100.0%
DEBT SERVICE FUND EXPENDITURES & OTHER USES-										
Tax appraisal / collection	12,384	11,936	10,444	7,288	3,694	0.7%	0.6%	0.6%	0.4%	0.3%
Financial advisor fees	2,019	2,407	1,989	1,731	-	0.1%	0.1%	0.1%	0.1%	-
Principal	810,000	655,000	540,000	560,000	340,000	43.1%	35.4%	32.0%	30.2%	26.3%
Interest	1,028,557	1,094,978	1,107,102	958,129	767,619	54.8%	59.2%	65.5%	51.7%	59.4%
Fiscal agent fees and other	8,715	3,113	1,700	1,200	800	0.5%	0.2%	0.1%	0.1%	0.1%
Bond issuance costs	119,413	388,577	-	208,838	-	6.4%	21.0%	-	11.3%	-
Bond discount (premium)	(2,878)	(283,368)	41,771	184,348	156,750	-0.3%	-15.4%	2.5%	9.8%	12.0%
TOTAL DEBT SERVICE FUND EXPENDITURES & OTHER USES	\$ 1,978,210	\$ 1,872,643	\$ 1,703,006	\$ 1,921,534	\$ 1,268,863	105.3%	101.1%	100.8%	103.6%	98.1%
EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES & OTHER USES	\$ (100,950)	\$ (23,698)	\$ (13,531)	\$ (67,611)	\$ 24,409	-5.3%	-1.1%	-0.8%	-3.6%	1.9%
TOTAL ACTIVE RETAIL WATER CONNECTIONS	1,096	938	828	756	686					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	1,093	934	820	747	670					

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2013**

Complete District Mailing Address:	100 Congress Ave., Suite 1300 Austin, TX 78701
District Business Telephone Number:	(512) 435-2300
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):	May 21, 2012
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 * 09/30/13	Expense Reimbursements 09/30/13	Title at Year End
<u>Board Members :</u>				
Rance Richter	Elected 05/12/2012 - 11/08/2016	\$ 1,650	\$ 124	President
Jim Goldrick	Elected 05/12/2012 - 11/08/2016	\$ 1,800	\$ 135	Vice-President
Daniel Bates	Elected 05/8/2010 - 11/04/2014	\$ 1,200	\$ 278	Secretary / Treasurer
Lee Buckley	Elected 05/12/2012 - 11/08/2016	\$ 1,350	\$ 355	Assistant Sec. / Treasurer
Bob Dickerson	Elected 05/8/2010 - 11/04/2014	\$ 1,200	\$ 251	Director
<u>Consultants :</u>				
Crossroads Utility Services	10/13/2010	\$ 235,834	\$ -	District Manager
Armbrust & Brown, PLLC	10/19/1999	\$ 50,122	\$ -	Attorney
		\$ 49,500	\$ -	Bond Related Services
Murfee Engineering Company, Inc.	10/19/1999	\$ 51,949	\$ -	Engineer
Bott & Douthitt, PLLC	10/01/2009	\$ 30,345	\$ 794	Bookkeeper
Maxwell Locke & Ritter, LLP	01/01/2011	\$ 14,500	\$ -	Auditor
		\$ 12,000	\$ -	Bond Related Services
Southwest Securities	06/08/2000	\$ 2,445	\$ -	Financial Advisor
		\$ 112,165	\$ -	Bond Related Services
McCall, Parkhurst & Horton, LLP	10/19/1999	\$ 64,687	\$ 2,127	Bond Counsel
Williamson Co. Tax Collector	10/19/1999	\$ 234	\$ -	Tax Collector
Travis Co. Tax Collector	10/01/2008	\$ 208	\$ -	Tax Collector

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

**OTHER
SUPPLEMENTAL INFORMATION**

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
OSI-1. PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2013**

Taxpayer	Type of Property	Tax Roll Year		
		2013	2012	2011
Western Rim Investors 2008-4 LP	*	\$ 36,294,205	\$ 36,000,000	\$ 25,377,340
AMFP II Fairways Star Ranch LLC	*	34,828,231	-	-
Round Rock M3-05 LLC	*	10,320,000	10,062,000	-
Forest Creek Medical Center LP	*	7,369,010	6,955,285	7,745,223
HEB Grocery Company LP	*	4,573,800	4,573,800	4,573,800
Star Golf Partners Ltd.	*	2,960,662	2,888,035	2,774,388
SWWC Utilities Inc.	*	2,138,955	2,140,358	-
PH SLII LP	*	1,864,824	-	-
Tack Development Ltd.	*	1,821,833	-	1,279,667
Bettina Properties LLC	*	1,529,069	1,507,187	1,466,388
Sinclair Communications LLC	*	-	2,477,839	-
Star Ranch Apartments LP	*	-	31,324,843	29,336,585
PK-Tack Ltd.	*	-	2,801,956	1,796,736
Links at Forest Creek LLC	*	-	-	9,812,292
IU Merger Sub Inc.	*	-	-	2,148,519
Total		\$ 103,700,589	\$ 100,731,303	\$ 86,310,938
Percent of Assessed Valuation		38.1%	41.7%	41.1%

* Not provided. Total represents total assessed value for taxpayer.

**WILLIAMSON COUNTY WATER, SEWER,
IRRIGATION AND DRAINAGE DISTRICT NO. 3
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2013**

Type of Property	Tax Roll Year					
	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 151,971,239	55.9%	\$ 124,554,314	51.5%	\$ 108,301,720	51.6%
Multi Family	88,085,415	32.4%	83,355,474	34.5%	68,903,925	32.8%
Vacant Land	16,941,568	6.2%	17,581,618	7.3%	18,605,354	8.9%
Commercial Real Propety	15,319,707	5.6%	15,316,015	6.3%	15,317,134	7.3%
Tangible Personal Property	1,629,805	0.5%	4,060,894	1.8%	1,328,720	0.7%
Real Inventory	12,930,626	4.7%	9,949,947	4.1%	8,795,151	4.2%
Exempt	128,763	0.1%	195,215	0.1%	199,150	0.1%
Less: Adjustments	(14,742,325)	-5.4%	(13,483,299)	-5.6%	(11,651,102)	-5.6%
Total Taxable Value	<u>\$ 272,264,798</u>	<u>100%</u>	<u>\$ 241,530,178</u>	<u>100%</u>	<u>\$ 209,800,052</u>	<u>100%</u>

APPENDIX B
Bond Counsel Opinion

LAW OFFICES

M^CCALL, 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.]*

**WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE
DISTRICT NO. 3 UNLIMITED TAX BONDS, SERIES 2015
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,350,000**

AS BOND COUNSEL FOR THE WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on January 14, 2015, authorizing the issuance of the Bonds (the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

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

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

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

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

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

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

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

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

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

Respectfully,

APPENDIX C
Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN