

## EXHIBIT G

PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2012

### NEW ISSUE -BOOK-ENTRY - ONLY

Underlying Rating: Moody's "\_\_\_\_"  
See "MUNICIPAL BOND RATINGS AND INSURANCE" herein.

*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 BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

\$11,360,000

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1**  
**(A Political Subdivision of the State of Texas Located in Travis and Williamson County, Texas)**  
**UNLIMITED TAX AND REVENUE BONDS, SERIES 2012**

**Dated: May 1, 2012**

**Due: August 1, as shown on inside cover**

Interest on the Bonds will accrue from May 1, 2012 and is payable August 1, 2012 and each February 1 and August 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company New York, New York, ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. 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"). The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.

The District has received a municipal bond rating and qualified for municipal bond insurance insuring the timely payment of the principal of and interest on the Bonds. The payment of all costs related to the underlying ratings will be at the expense of the District. The purchase of municipal bond insurance and the payment of all costs related thereto will be at the option and expense of the initial purchaser (the "Initial Purchaser"). See "MUNICIPAL BOND RATINGS AND 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 taxable property within the District and are further payable from and secured by a pledge of certain net revenues (described herein), if any, the District receives in connection with the water, wastewater and drainage system within the District unless or until such pledge and lien are terminated as described herein. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. This cover page contains information for quick reference only and is not a summary of the Bonds. Potential investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Investment in the Bonds is subject to certain risk factors. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about \_\_\_\_\_, 2012 in Austin, Texas.

**Bids Due: \_\_\_\_\_, 2012 by \_\_\_\_\_ A.M. C.D.T.**  
**at 701 Brazos, Suite 400, Austin, Texas 78701**  
**Award Expected: \_\_\_\_\_, C.D.T.**

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

| Due  | Principal Amount | Interest Rate <sup>(a)</sup> | Initial Reoffering Yield <sup>(b)</sup> | CUSIP Number <sup>(c)</sup> | Due  | Principal Amount | Interest Rate <sup>(a)</sup> | Initial Reoffering Yield <sup>(b)</sup> | CUSIP Number <sup>(c)</sup> |
|------|------------------|------------------------------|---|-----------------------------|------|------------------|------------------------------|---|-----------------------------|
| 2013 | \$ 5,000         | _____ %                      | _____ %                                 | _____                       | 2023 | \$ 700,000       | _____ %                      | _____ %                                 | _____                       |
| 2014 | 25,000           | _____ %                      | _____ %                                 | _____                       | 2024 | 725,000          | _____ %                      | _____ %                                 | _____                       |
| 2015 | 50,000           | _____ %                      | _____ %                                 | _____                       | 2025 | 750,000          | _____ %                      | _____ %                                 | _____                       |
| 2016 | 150,000          | _____ %                      | _____ %                                 | _____                       | 2026 | 775,000          | _____ %                      | _____ %                                 | _____                       |
| 2017 | 200,000          | _____ %                      | _____ %                                 | _____                       | 2027 | 800,000          | _____ %                      | _____ %                                 | _____                       |
| 2018 | 300,000          | _____ %                      | _____ %                                 | _____                       | 2028 | 800,000          | _____ %                      | _____ %                                 | _____                       |
| 2019 | 400,000          | _____ %                      | _____ %                                 | _____                       | 2029 | 880,000          | _____ %                      | _____ %                                 | _____                       |
| 2020 | 600,000          | _____ %                      | _____ %                                 | _____                       | 2030 | 950,000          | _____ %                      | _____ %                                 | _____                       |
| 2021 | 650,000          | _____ %                      | _____ %                                 | _____                       | 2031 | 950,000          | _____ %                      | _____ %                                 | _____                       |
| 2022 | 675,000          | _____ %                      | _____ %                                 | _____                       | 2032 | 975,000          | _____ %                      | _____ %                                 | _____                       |

- \* Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after August 1, 2020, in whole or from time to time in part, on August 1, 2019, 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 may also be subject to mandatory sinking fund redemption if certain maturities of the bonds are designated as term bonds by the Initial Purchaser. 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 \_\_\_\_\_ % of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of \_\_\_\_\_ %.
- (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 May 1, 2012 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. 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.

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission (the "Rule"), this document constitutes a preliminary official statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of the information permitted by the Rule.

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 this 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, and 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."

NONE OF THE DISTRICT OR 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 \_\_\_\_\_ (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the cover page of this Official Statement at a price of \_\_\_\_% 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 OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

#### **Securities Laws**

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

#### **MUNICIPAL BOND RATINGS AND INSURANCE**

The District has received a municipal bond rating and qualified for municipal bond insurance insuring the timely payment of the principal of and interest on the Bonds. The payment of all costs related to the underlying rating will be at the expense of the District. The purchase of municipal bond insurance, and the payment of all costs related thereto, will be at the option and expense of the Initial Purchaser.

Moody's Investors Service ("Moody's") has assigned an underlying rating of "BBB" 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.

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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 ..... North Austin Municipal Utility District No. 1 (the "District") is a political subdivision of the State of Texas created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on November 15, 1983 and confirmed at an election held within the District on April 7, 1984, which operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 997.7 acres within its boundaries, all of which lie within Travis County, Texas. See "THE DISTRICT - Location."
- Location ..... The District is located primarily in Williamson County with a small portion in Travis County, approximately 15 miles north of Austin's central business district and three miles east/southeast of the U.S. Highway 183 and FM 620 intersection. A small portion of the District (approximately 11.61 acres of public right-of-ways) lies within the boundaries of the City of Austin, Texas and the remainder lies wholly within the extraterritorial jurisdiction of the City of Austin and within the boundaries of the Round Rock Independent School District (the "Round Rock ISD"). It is bounded by McNeil Road on the South; Parmer Lane on the East; FM 620 on the North; and generally the subdivisions of Los Indios and Springwoods on the West. See "THE DISTRICT - Location."
- Status of Development ..... The District contains approximately 997.33 acres of land, of which 692.09 acres are developable. All of the developable acreage has been developed with utility facilities as Milwood residential subdivision, containing a total of 2,579 platted single family lots and 2,579 completed single family homes (of which 2,548 are occupied and 31 are unoccupied). Additional development within the District includes two apartment complexes (total of 694 units),        square footage of office/retail space, a pre-school day care, a beauty salon and Pond Springs Elementary School. See "THE DISTRICT - Status of Development."

### THE BONDS

- Description ..... The Bonds in the aggregate principal amount of \$11,360,000 mature serially in varying amounts on August 1 of each year from 2012 through 2032 in the principal amounts set forth on the inside cover page hereof. Interest accrues from May 1, 2012 at the rates per annum set forth on the cover page hereof and is payable August 1, 2012 and each February 1 and August 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 ..... Bonds maturing on and after August 1, 2020 are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on August 1, 2019, or on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds may also be subject to mandatory sinking fund redemption if certain maturities of the Bonds are designated as Term Bonds by the Initial Purchaser. 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 further payable from and are secured by a pledge of certain net revenues (described herein), if any, the District receives in connection with the water, sanitary sewer and drainage system (the "System") within the District, unless and until such pledge and lien are terminated as described herein (see "THE BONDS - Source of and Security for Payment"). It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District's debt service requirements. **The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record ..... The District has previously issued five series of unlimited tax and revenue new money bonds to acquire or construct utility facilities in the original aggregate principal amount of \$18,275,000. Additionally, the District has heretofore issued two series of refunding bonds in the original aggregate principal amount of \$10,339,712.

After the issuance of the Bonds, the District will have outstanding new money bonds in the aggregate principal amount of \$13,500,000 and outstanding refunding bonds in the aggregate principal amount of \$1,695,000 for a combined outstanding debt in the aggregate principal amount of \$15,195,000 (the "Outstanding Bonds"). See "FINANCIAL STATEMENT -- Outstanding Bonds."

The District has not defaulted in the payment of the principal and interest on the Outstanding Bonds. The District has utilized bond proceeds to capitalize interest from one to two years in connection with the new money Outstanding Bonds. See "FINANCIAL STATEMENT - Outstanding Bonds."

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

Authority for  
Issuance ..... The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapters 49 and 54 of the Texas Water Code, as amended, a bond election held within the District on April 7, 1984, an order of the TCEQ, and an Order (the "Bond Order") adopted by the Board of Directors of the District. See "THE BONDS - Authority for Issuance."

Use of Proceeds ..... Proceeds from the sale of the Bonds will be used fund various projects and expenses within the District, including: (i) water main repair; (ii) water leak investigation; (iii) water service line replacement; (iv) water meter replacement; (v) fire hydrant repair/replacement; (vi) booster pump station buildings and appurtenances; (vii) Robinson Park ground water irrigation system; (viii) wastewater manhole repair/adjustment; and (ix) Rattan Creek drainage study and modifications.

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

Bonds Authorized But  
Unissued ..... At an election held within the District on April 7, 1984, voters within the District authorized a total of \$73,100,000 in unlimited tax and revenue new money bonds. After the sale of the Bonds, \$43,465,000 in unlimited tax and revenue new money bonds will remain authorized but unissued. In addition, the District has voted authority to issue refunding bonds pursuant to the election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued and a special tax up to \$1.10 per \$100 valuation to make payments to the City of Austin under its Utility Construction Contract associated with the District's contract revenue bonds See "FINANCIAL STATEMENT -- Unlimited

Tax and Revenue Bonds Authorized but Unissued” “Outstanding Bonds” and “THE BONDS – Issuance of Additional Debt.”

**Municipal Bond Ratings**

and Insurance ..... Moody’s Investors Service (“Moody’s”) has assigned an underlying rating of “  ” to the Bonds. Additionally, the District has qualified for an insurance policy insuring the timely payment of the principal of and interest on the Bonds. The purchase of municipal bond insurance will be at the option and expense of the Initial Purchaser. See “MUNICIPAL BOND RATINGS AND INSURANCE.”

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

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

Financial Advisor ..... Southwest Securities, Austin, Texas

Engineer ..... Murfee Engineering Co., Inc, Austin, Texas

**INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to mine 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 February 1, 2012)

|  |   |                                 |
|--|---|---------------------------------|
| 2011 Certified Assessed Valuation  |   | \$725,177,656 <sup>(a)</sup>    |
| Gross Debt Outstanding (after issuance of the Bonds)   |   | \$ 14,725,000 <sup>(b)</sup>    |
| Ratio of Gross Debt to 2011 Certified Assessed Valuation   |   | 2.03%                           |
| 2011 Tax Rate  |   |                                 |
|  | Debt Service                              | \$ 0.1194                       |
|  | Maintenance                               | 0.2625                          |
|  | <b>Total 2011 Tax Rate</b>                | <b>\$ 0.3819 <sup>(c)</sup></b> |
| Debt Service Fund Balance (December 19, 2011)  |   | \$ 288,836 <sup>(d)</sup>       |
| Percentage of current tax collections - Tax Years (1997-2010)  |   | 99.91% <sup>(e)</sup>           |
| Percentage of total tax collections - Tax Years (1997-2010)  |   | 100.51% <sup>(e)</sup>          |
| Projected Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Projected Average Requirement") (2012-2032) |   | \$ 1,073,793                    |
| Tax Rate required to pay Projected Average Requirement based upon 2011 Certified Assessed Valuation at 95% collections             |   | \$ 0.16 /\$100 AV               |
| Projected Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Projected Maximum Requirement") (2015)      |   | \$ 1,245,795                    |
| Tax Rate required to pay Projected Maximum Requirement based upon 2011 Certified Assessed Valuation at 95% collections             |   | \$ 0.19 /\$100 AV               |
| Number of active connections as of December 1, 2011  |   |                                 |
| Single Family - Occupied   | 2548                                      |                                 |
| Single Family - Unoccupied   | 31  |                                 |
| Multi-Family <sup>(f)</sup>  | 2   |                                 |
| Commercial   | 26  |                                 |
| Other  | 2   |                                 |
|  | <b>Total Number of Active Connections</b> | <b>2,616</b>                    |
| Estimated Population as of December 1, 2011  |   | 10,498 <sup>(i)</sup>           |

(a) Amount reflects the assessed valuation of the District as of January 1, 2011 as certified by the Travis Central Appraisal District ("TCAD") and Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."

(b) Includes the Bonds.

(c) The District levied a 2011 debt service tax rate of \$0.1194 and a maintenance tax rate of \$0.2625, at the District's Board meeting in September 2011. The District levied a 2011 total tax rate of \$0.3819.

(d) Does not include approximately twenty one months' capitalized interest included in the Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

(e) See "TAX DATA - Tax Collections."

(f) Based on 3.5 residents per occupied single family connection and 2.5 connections per occupied apartment unit. According to the leasing staffs at the apartments, 632 units of the total 694 units are occupied as of January 1, 2012.

**OFFICIAL STATEMENT**  
**relating to**  
**\$11,360,000**  
**North Austin Municipal Utility District No. 1**  
**(A Political Subdivision of the State of Texas Located in Travis County, Texas)**

**UNLIMITED TAX AND REVENUE BONDS, SERIES 2012**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by the North Austin Municipal Utility District No. 1 (the "District"), a political subdivision of the State of Texas (the "State"), of its \$11,360,000 Unlimited Tax and Revenue Bonds, Series 2012 (the "Bonds").

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

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

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o of Armbrust & Brown, PLLC, 100 Congress, Suite 1300, Austin, Texas 78701, or from the District's Financial Advisor, Southwest Securities, 701 Brazos, Suite 400, Austin, Texas, 78701, upon payment of reasonable copying, mailing and handling charges.

**THE BONDS**

**General Description**

The Bonds will bear interest from May 1, 2012 and will mature on August 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the cover page hereof. Interest on the Bonds will be paid on August 1, 2012 and each February 1 and August 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 New York, New York, ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent and registrar for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent").

**Redemption**

*Optional Redemption...* The Bonds maturing on and after August 1, 2020, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 1, 2019, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

*Mandatory Sinking Fund Redemption . . .* In addition to being subject to optional redemption, as provided above, the Bonds maturing on August 1, \_\_\_\_ and August 1, \_\_\_\_ 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:

| § Term Bond            |               |
|------------------------|---------------|
| Maturing August 1, *   |               |
| Mandatory              | Principal     |
| <u>Redemption Date</u> | <u>Amount</u> |
|                        |               |

| § Term Bond            |               |
|------------------------|---------------|
| Maturing August 1, *   |               |
| Mandatory              | Principal     |
| <u>Redemption Date</u> | <u>Amount</u> |
|                        |               |

\*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) 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) 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) 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 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 the prerequisites to the redemption are not fulfilled, such notice, will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent will give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

#### **DTC Redemption Provision**

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

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

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

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

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

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

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

### **Authority for Issuance**

At an election held within the District on April 7, 1984, voters within the District authorized a total of \$73,100,000 in principal amount of unlimited tax and revenue bonds for water, wastewater, and drainage facilities. The Bonds constitute the sixth series of new money bonds issued by the District. After the sale of the Bonds, the District will have remaining \$43,465,000 in authorized but unissued unlimited tax and revenue new money bonds. In addition, District voters authorized refunding bonds pursuant to the election proposition in an amount not to exceed one and one-half times the amount of bonds or other obligations issued and a special tax up to \$1.10 per \$100 valuation to make payments to the City of Austin under its Utility Construction Contract associated with the District's contract revenue bonds. See "The Bonds – Issuance of Additional Debt."

The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by the TCEQ.

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

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

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See "TAXING PROCEDURES." The Bonds are further payable from and are secured by a pledge of certain Net Revenues (defined below), if any, of the System (defined below) and subject to the conditions described below.

*Tax Pledge...* The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax, against anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the paying of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated as its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes and Net Revenues when and if the City of Austin dissolves the District and assumes all debts and liabilities of the District.

*Net Revenues Pledge...* The Bonds are further secured by a first lien on and pledge of certain Net Revenues, if any, of the District's water, wastewater and drainage system which does not include any facilities constructed with proceeds of any Special Project Bonds issued by the District (collectively, the "System"). "Net Revenues" are defined by the Bond Order as net revenues received from the operation of the System after deduction of reasonable costs of administration, efficient operation and adequate maintenance, provided however, the term "Net Revenues" shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District pursuant to a contract authorized by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project. Any Net Revenues remaining after payment of debt service on the Bonds is available to the District for any lawful purpose. The Net Revenues are entirely dependent upon sales of water and sewer services to residents and users in the District. **It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District's debt service requirements.**

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

### **Payment Record**

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

### **Funds**

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

The Operating Fund provides for operation and maintenance of the System and payment of general and administrative expenses of the District. The District agrees in the Bond Order to deposit in the Operating Fund gross revenues from the ownership and operation of the System except for certain contractually derived revenues described therein. The Operating Fund may be used solely (i) to pay reasonable administration, efficient operation, and adequate maintenance expenses of the System, (ii) at the Board's discretion, to transfer from time to time any excess to the credit of the Debt Service Fund of the District when needed to pay the obligations of the District payable therefrom, and (iii) to the extent the Debt Service Fund

of the District and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from such Debt Service Fund, to pay any other expenses of the District which may be lawfully paid from the Operating Fund.

The Bond Order confirms establishment and maintenance by the District of the Debt Service Fund to be used to pay the principal of and interest on and Paying Agent fees in respect of the Bonds. The Bond Order requires that the District deposit to the credit of the Debt Service Fund (i) from the delivery of the Bonds to the Initial Purchaser, the amount received from the proceeds of the Bonds representing accrued interest and capitalized interest on the Bonds, (ii) all receipts of Net Revenues, if any, and 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 reasonable administration, operation, and maintenance expenses of the System, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to the Paying Agent when due.

The Construction Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Construction Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund. The Construction Fund may be applied solely to (1) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued including payment of the costs of issuance, and (2) the extent proceeds of the Bonds deposited to the Construction Fund and investment income attributable thereto are in excess of the amounts required for any such purposes, then in the discretion of the District to transfer such unexpected proceeds or income to the Debt Service Fund or to apply the same to one or more authorized purposes as authorized by the TCEQ or TCEQ rules.

### **Defeasance of Outstanding Bonds**

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

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

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

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

the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and (iv) any other than 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 its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Debt.

*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**

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, Austin, Texas, 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 selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent will be sent by the District or the successor paying agent 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) day of the month (whether or not a business day) preceding such interest payment date.



## **Issuance of Additional Debt**

### *General*

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – General." The District's voters have authorized the issuance of \$73,100,000 of unlimited tax and revenue bonds for the purpose of providing water, wastewater and storm drainage facilities and to reimburse developers for certain construction costs in connection with such facilities. Following the issuance of the Bonds, the District will have \$43,465,000 of unlimited tax and revenue new money bonds authorized but unissued.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds for such purpose. Before the District could issue ad valorem tax bonds for fire-fighting activities, the following actions would be required: (i) approval of the fire plan and issuance of bonds by the TCEQ; (ii) authorization of a detailed fire plan and bonds for such purposes by the qualified voters in the District; (iii) amendments to the existing City of Austin ordinance specifying the purposes for which the District may issue bonds; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election for approval of a fire plan or related bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds. Current fire protection and emergency services are provided by the Travis County Emergency Services District No. 2. The District does not have any current intention to engage in fire-fighting activities.

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

### *Contract Revenue Bonds*

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

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

Pursuant to Section 49.186 of the 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 Water Code provides that bonds, notes or other obligations issued by a district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

The District makes no representation that the Bonds will be acceptable to banks, savings and loan associations or public entities for investment purposes or to secure deposits of public funds. The District has made no investigation of other laws, regulations or investment criteria that 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 or will not consolidate its water and wastewater system with any other district.

## **Annexation**

The District lies entirely within the extraterritorial jurisdiction of the City of Austin, Texas ("Austin" 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 over or knowledge of the annexation plans of the City of Austin. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "THE DISTRICT – City of Austin Consent Agreement."

## **Alteration of Boundaries**

Under Texas law, the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory; and 2) under certain circumstances, exclude land which is non-agricultural or cannot be irrigated if land which can be irrigated of at least equal value and acreage is annexed. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

## **Approval of the Bonds**

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

## **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.

## **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](http://www.dtcc.com).

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

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

benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

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## USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used finance the District's share of the following projects: ((i) water main repair; (ii) water leak investigation; (iii) water service line replacement; (iv) water meter replacement; (v) fire hydrant repair/replacement; (vi) booster pump station buildings and appurtenances; (vii) Robinson Park ground water irrigation system; (viii) wastewater manhole repair/adjustment; and (ix) Rattan Creek drainage study and modifications. The remaining Bond proceeds will be used to capitalize approximately twenty one months' interest requirements on the Bonds and pay certain costs associated with the issuance of the Bonds.

The estimated use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$9,424,250 is estimated to be required for construction costs, and \$1,935,750 is estimated to be required for non-construction costs including \$922,432 of capitalized interest (approximately twenty-one months' interest at 4.64%).

### Construction Costs

#### A. Developer Contribution Items - None

None

#### B. District Items

|   |           |
|---|-----------|
| 1. Water Main Repairs                               | \$ 70,000 |
| 2. Water Leak Investigation                         | 60,000    |
| 3. Water Service Line Replacement                   | 2,700,000 |
| 4. Water Meter Replacement                          | 325,000   |
| 5. Fire Hydrant Repair/Replacement                  | 625,000   |
| 6. Booster Pump Station Buildings and Appurtenances | 400,000   |
| 7. Robinson Park Groundwater Irrigation System      | -         |
| 8. Wastewater Manhole Repair/Adjustment             | 270,000   |
| 9. Rattan Creek Drainage Study and Modifications    | 3,000,000 |
| 10. Contingencies                                   | 745,000   |
| 11. Engineering                                     | 1,229,250 |

#### Total District Items

\$ 9,424,250

#### Total Construction Costs

\$ 9,424,250

### Non-Construction Costs

|   |            |
|---|------------|
| A. Legal Fees (2%)                              | \$ 327,200 |
| B. Financial Advisory Fees (2%)                 | 227,200    |
| C. Capitalized Interest (21 months @ 4.64%)     | 922,432    |
| D. Bond Discount (3%)                           | 340,800    |
| E. Bond Issuance Expenses                       | 30,218     |
| F. Bond Application                             | 50,000     |
| G. Attorney General Fee (0.10% or \$9,500 max.) | 9,500      |
| H. TCEQ Bond Issuance Fee (0.25%)               | 28,400     |
| J. Contingency                                  | - (a)      |

#### Total Non-Construction Costs

\$ 1,935,750

#### TOTAL BOND ISSUE REQUIREMENT

\$ 11,360,000

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

## INVESTMENT CONSIDERATIONS

### General

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

### Factors Affecting Taxable Values and Tax Payments

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

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

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

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

*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 2011 certified assessed valuation of the District is \$725,177,656 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$1,245,795 (2015) and the Average Annual Debt Service Requirement will be \$1,073,793 (2012 through 2032, inclusive).

Assuming (1) no increase or decrease from the 2011 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$0.19/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$1,245,795, and a tax rate of \$0.16/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$1,073,793. 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 of 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.

### **Bond Insurance Risks**

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The purchase of bond insurance, if available, will be at the option and expense of the Initial Purchaser. If a bond insurance policy is purchased by the Initial Purchaser, provided below are risk factors relating to bond insurance.

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 acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, 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 acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Issuer 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 and the Bond Insurer's consent may be required in connection with amendments to any applicable bond documents.

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 pursuant to the applicable bond documents. 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 or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which 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 or the marketability (liquidity) for the Bonds. See description of "MUNICIPAL BOND RATINGS" herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the District nor the Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.



## **Registered Owners' Remedies**

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

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

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

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

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

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

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

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



There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law and that, although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorneys 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."

### **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). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

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

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

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

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

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

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

#### **Forward-Looking Statements**

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

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

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

#### **Future Debt**

The District has reserved the right in the Bond Order to issue the remaining \$43,465,000 authorized but unissued unlimited tax and revenue bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$43,465,000 unlimited tax and revenue bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ.

The District does not currently anticipate the issuance of the full principal amount of authorized but unissued bonds (\$43,465,000), but the District retains the legal right to issue the full amount of authorized but unissued bonds subject to the approval of the TCEQ. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS -Issuance of Additional Debt" and "FINANCIAL STATEMENT - Unlimited Tax and Revenue Bonds Authorized But Unissued."

#### **Government Approval**

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS". The TCEQ approved the issuance of the Bonds by an order signed December 9, 2011. In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

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

There is the potential for property within the District to be owned by tax-exempt entities such as 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 within which SHFC owns the home, that property is removed from the tax rolls. 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. As of February 27, 2012, there are no homes within the District that are owned by SHFC and reflected on the 2011 tax roll. Because the SHFC program is between SHFC 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. On August 12, 2011, President Obama submitted to Congress a legislative proposal entitled the "American Jobs Act of 2011" (the "Jobs Act"). If enacted, as proposed, the Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of the Jobs Act being enacted in the form introduced or in some other form cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

### **Drought Conditions**

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

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## DISTRICT MAP

## **THE DISTRICT**

### **General**

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

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

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

### **City of Austin Consent Agreement**

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

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

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

## **Strategic Partnership Negotiations**

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

## **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 currently held within the District on the second Saturday in May in each even-numbered year. Recent legislation has updated the ability of certain political subdivisions such as the District to hold elections in May of even numbered years. The Board is currently considering its options regarding the timing of holding elections of board members in May of even numbered years. All of the directors reside or own property in the District.

| <b>Name</b>       | <b>Position</b>               | <b>Length of Service</b> | <b>Term Expires May</b> |
|-------------------|-------------------------------|--------------------------|-------------------------|
| Alan McNeil       | President                     | 17 years                 | 2014                    |
| Donald G. Conklin | Vice President                | 14 years                 | 2014                    |
| Keith Collins     | Treasurer                     | 13 years                 | 2012                    |
| Jo Jones          | Secretary                     | 8 years                  | 2012                    |
| John T. Lenz      | Assistant Secretary/Treasurer | 4 years                  | 2012                    |

### ***Consultants***

#### **Tax Assessor/Collector**

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

The portion of land and improvements in the District that are located in Travis County are being appraised by the Travis Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Ms. Tina Morton, currently serves the District in this capacity under contract.

#### **Operator**

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

#### **Engineer**

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

#### **Bookkeeper**

Municipal Accounts & Consulting, L.P. ("MAC"), Certified Public Accountants, is charged with the responsibility of providing bookkeeping services for the District. MAC serves in a similar capacity for 45 other special districts in the Austin metropolitan area.

#### **Auditor**

The District engaged Belt Harris Pechacek, LLP, Certified Public Accountants ("Belt Harris") to prepare the District's 2011 financial statements. Belt Harris serves as auditor to 20 other special districts. See "Appendix A" for a copy of the District's September 30, 2011 audited financial statements.

### **Financial Advisor**

Southwest Securities serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on 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 has engaged Armbrust & Brown, PLLC ("A&B") as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

### **Location**

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

### **Historical and Current Status of Development**

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

The District contains approximately 997.33 acres of land, of which 692.09 acres are developable. All of the developable acreage has been developed with utility facilities as Milwood residential subdivision containing a total of 2,579 platted single family lots and 2,579 completed single family homes (of which 2,548 are occupied and 31 are unoccupied). Additional development within the District includes two apartment complexes (total of 694 units),  square footage of office/retail space, a pre-school day care, a beauty salon and Pond Springs Elementary School.

The chart below reflects the status of development as of February 1, 2012:

*(Chart appears on following page)*



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

| <u>Milwood Section</u> | <u>Acreage</u> | <u>Developed Lots</u> | <u>Completed Homes</u> | <u>Vacant<br/>Developed Lots</u> |
|------------------------|----------------|-----------------------|------------------------|----------------------------------|
| 22                     | 43.41          | 191                   | 191                    | -                                |
| 23                     | 40.03          | 166                   | 166                    | -                                |
| 26A                    | 50.89          | 132                   | 132                    | -                                |
| 27A                    | 29.90          | 137                   | 137                    | -                                |
| 27B                    | 25.98          | 124                   | 124                    | -                                |
| 28                     | 30.42          | 213                   | 213                    | -                                |
| 29                     | 21.91          | 145                   | 145                    | -                                |
| 30                     | 27.19          | 123                   | 123                    | -                                |
| 31A                    | 21.00          | 120                   | 120                    | -                                |
| 31A Phase B            | 15.29          | 85                    | 85                     | -                                |
| 32                     | 18.46          | 152                   | 152                    | -                                |
| 33                     | 6.12           | 33                    | 33                     | -                                |
| 34                     | 20.28          | 109                   | 109                    | -                                |
| 35                     | 16.11          | 84                    | 84                     | -                                |
| 36                     | 24.52          | 135                   | 135                    | -                                |
| 37A                    | 17.73          | 75                    | 75                     | -                                |
| 37A Phase A            | 5.94           | 36                    | 36                     | -                                |
| 37A Phase B            | 8.57           | 52                    | 52                     | -                                |
| 38A                    | 20.83          | 47                    | 47                     | -                                |
| 38B Phase 1            | 11.65          | 48                    | 48                     | -                                |
| 38B Phase 2            | 14.52          | 52                    | 52                     | -                                |
| 40                     | 28.79          | 150                   | 150                    | -                                |
| 42                     | <u>30.20</u>   | <u>170</u>            | <u>170</u>             | -                                |
| <b>Subtotal</b>        | <b>529.74</b>  | <b>2,579</b>          | <b>2,579</b>           | -                                |

**B. Non-Residential/Commercial/Other Acreage**

|                       |                      |
|-----------------------|----------------------|
| Multi-Family          | 50.09                |
| Retail/Commercial     | 11.36                |
| Office/Retail         | 93.00                |
| Pre-School Day Care   | 1.01                 |
| School                | 4.70                 |
| Detention Pond        | 2.19                 |
| Undevelopable Acreage | <u>305.24</u>        |
| <b>Subtotal</b>       | <b>467.59</b>        |
| <b>TOTAL</b>          | <b><u>997.33</u></b> |

## THE SYSTEM

### Regulation

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

### Water Supply and Distribution

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

### Wastewater Collection and Treatment

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

### 100-Year Flood Plain

According to the District's Engineer, approximately 100 acres of undeveloped land within the District are located within the 100-year flood plain, and are included in the land use table as undevelopable.

### Water and Wastewater Operations – Table 1

#### *Rate and Fee Schedule*

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 February 15, 2012.

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

|  |  |
|--|--|
| Basic Service rate (which includes solid waste disposal, 1,000 gallons of water service and 1,000 gallons of wastewater service) ..... | \$ 29.00 per residence                             |
| Monthly In-District Water Rate .....   | \$ 4.20 per 1,000 gallons over first 1,000 gallons |
| Monthly In-District Wastewater Rate .....  | \$ 5.95 per 1,000 gallons over first 1,000 gallons |

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

|   |  |
|---|--|
| Water Usage Charge per Fee Unit (includes 1,000 gallons) .....      | \$ 12.00 per meter                                 |
| Water Gallonage Charge .....  | \$ 5.90 per 1,000 gallons over first 1,000 gallons |
| Wastewater Usage Charge per Fee Unit (includes 1,000 gallons) ..... | \$ 12.00 per meter                                 |
| Water Gallonage Charge .....  | \$ 7.90 per 1,000 gallons over first 1,000 gallons |

## Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared upon information obtained from the District's annual financial reports. Reference is made to such reports for further and more complete information.

|   | Fiscal Year Ended        |                          |                          |                          |                          |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 9/30/2011 <sup>(a)</sup> | 9/30/2010 <sup>(a)</sup> | 9/30/2009 <sup>(a)</sup> | 9/30/2008 <sup>(a)</sup> | 9/30/2007 <sup>(a)</sup> | 9/30/2006 <sup>(a)</sup> |
| <b>REVENUES</b>                               |                          |                          |                          |                          |                          |                          |
| Water/Wastewater Service, including penalties | \$ 3,712,882             | \$ 2,641,585             | \$ 2,972,842             | \$ 2,665,750             | \$ 2,012,049             | \$ 2,247,127             |
| Garbage Revenue                               | 443,371                  | 428,793                  | 380,390                  | 365,148                  | 308,358                  | 244,782                  |
| Tap and Inspection Fees                       | -                        | -                        | -                        | 106,440                  | 3,200                    | 2,272                    |
| Property Taxes, including penalties           | 1,893,209                | 2,017,456                | 1,865,443                | 1,710,380                | 1,618,402                | 1,208,818                |
| Investment earnings                           | 19,543                   | 25,591                   | 27,848                   | 99,389                   | 193,395                  | 145,816                  |
| Park and Pool Fees                            | -                        | -                        | 59,645                   | 37,609                   | 50,130                   | 53,888                   |
| Miscellaneous                                 | 235,662                  | 76,057                   | 112,258                  | 37,871                   | 177,525                  | 2,766                    |
| <b>TOTAL REVENUES</b>                         | <b>\$ 6,304,667</b>      | <b>\$ 5,189,482</b>      | <b>\$ 5,418,426</b>      | <b>\$ 5,022,587</b>      | <b>\$ 4,363,059</b>      | <b>\$ 3,905,469</b>      |
| <b>EXPENDITURES</b>                           |                          |                          |                          |                          |                          |                          |
| Water/Wastewater Service                      | \$ 3,226,186             | \$ 2,627,976             | \$ 3,252,739             | \$ 2,783,612             | \$ 1,994,184             | \$ 2,129,772             |
| Garbage Service                               | 450,972                  | 405,378                  | 350,938                  | 345,054                  | 302,328                  | 293,320                  |
| Contracted Services                           | 281,156                  | 278,320                  | 317,747                  | 295,077                  | 318,508                  | 306,305                  |
| Professional Fees                             | 217,710                  | 128,890                  | 144,776                  | 114,856                  | 151,851                  | 90,522                   |
| Director Fees and related expenses            | 44,603                   | 30,732                   | 34,557                   | 34,879                   | 35,525                   | 31,972                   |
| Utilities                                     | 46,319                   | 45,206                   | 45,821                   | 45,094                   | 31,934                   | 32,068                   |
| Repairs and Maintenance                       | -                        | -                        | 71,625                   | 46,501                   | 234,166                  | 113,562                  |
| Park/Pool Expenses                            | 651,043                  | 606,779                  | 569,844                  | 505,839                  | 513,556                  | 533,078                  |
| Security                                      | 52,989                   | 49,952                   | 48,914                   | 48,852                   | 43,174                   | 28,020                   |
| Other   | 79,657                   | 136,481                  | 108,675                  | 52,706                   | 9,096                    | 6,569                    |
| Capital Outlay                                | 382,385                  | 531,664                  | 293,750                  | 2,261,605                | 913,621                  | 167,676                  |
| <b>TOTAL EXPENDITURES</b>                     | <b>\$ 5,433,020</b>      | <b>\$ 4,841,378</b>      | <b>\$ 5,239,386</b>      | <b>\$ 6,534,075</b>      | <b>\$ 4,547,943</b>      | <b>\$ 3,732,864</b>      |
| <b>NET REVENUES (DEFICIT)</b>                 | <b>\$ 871,647</b>        | <b>\$ 348,104</b>        | <b>\$ 179,040</b>        | <b>\$ (1,511,488)</b>    | <b>\$ (184,884)</b>      | <b>\$ 172,605</b>        |
| <b>Fund Balance, beginning of yr</b>          | <b>\$ 2,218,537</b>      | <b>\$ 1,991,587</b>      | <b>\$ 1,167,570</b>      | <b>\$ 2,679,058</b>      | <b>\$ 2,614,226</b>      | <b>\$ 2,391,411</b>      |
| Plus/(Less) Fund Transfers                    |                          | \$ (121,154)             | \$ 644,977               | \$ -                     | \$ 249,716               | \$ 50,210                |
| <b>Fund Balance, end of yr</b>                | <b>\$ 3,090,184</b>      | <b>\$ 2,218,537</b>      | <b>\$ 1,991,587</b>      | <b>\$ 1,167,570</b>      | <b>\$ 2,679,058</b>      | <b>\$ 2,614,226</b>      |

(a) Audited.

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# **PROJECTED DEBT SERVICE REQUIREMENTS – TABLE 3**

North Austin Municipal Utility District No. 1

**\$11,360,000**

Unlimited Tax and Revenue Bonds, Series 2012

Dated Date: May 1, 2012

First Interest Payment Due: August 1, 2012

| Year<br>Ending<br>31-Dec | Outstanding Debt        |                             | The Bonds*                   |                         |                          |                         | Principal<br>and<br>Interest | Projected<br>Total<br>Debt Service<br>Requirements |
|--------------------------|-------------------------|-----------------------------|------------------------------|-------------------------|--------------------------|-------------------------|------------------------------|--|
|                          | Principal<br>(Due 8/01) | Interest<br>(Due 2/1 & 8/1) | Principal<br>and<br>Interest | Principal<br>(Due 8/01) | (Due 2/01)<br>(Due 8/01) | Interest*<br>(Due 8/01) | Total                        | Principal<br>and<br>Interest                       |
| 2012                     | 820,000                 | 128,438                     | 948,438                      | -                       | -                        | 175,701                 | 175,701                      | 175,701  |
| 2013                     | 550,000                 | 101,733                     | 651,733                      | 5,000                   | 263,552                  | 263,552                 | 527,104                      | 532,104  |
| 2014                     | 580,000                 | 82,083                      | 662,083                      | 25,000                  | 263,436                  | 263,436                 | 526,872                      | 551,872  |
| 2015                     | 610,000                 | 60,083                      | 670,083                      | 50,000                  | 262,856                  | 262,856                 | 525,712                      | 575,712  |
| 2016                     | 250,000                 | 36,850                      | 286,850                      | 150,000                 | 261,696                  | 261,696                 | 523,392                      | 673,392  |
| 2017                     | 270,000                 | 24,975                      | 294,975                      | 200,000                 | 258,216                  | 258,216                 | 516,432                      | 716,432  |
| 2018                     | 285,000                 | 12,825                      | 297,825                      | 300,000                 | 253,576                  | 253,576                 | 507,152                      | 807,152  |
| 2019                     | -                       | -                           | -                            | 400,000                 | 246,616                  | 246,616                 | 493,232                      | 893,232  |
| 2020                     | -                       | -                           | -                            | 600,000                 | 237,336                  | 237,336                 | 474,672                      | 1,074,672  |
| 2021                     | -                       | -                           | -                            | 650,000                 | 223,416                  | 223,416                 | 446,832                      | 1,096,832  |
| 2022                     | -                       | -                           | -                            | 675,000                 | 208,336                  | 208,336                 | 416,672                      | 1,091,672  |
| 2023                     | -                       | -                           | -                            | 700,000                 | 192,676                  | 192,676                 | 385,352                      | 1,085,352  |
| 2024                     | -                       | -                           | -                            | 725,000                 | 176,436                  | 176,436                 | 352,872                      | 1,077,872  |
| 2025                     | -                       | -                           | -                            | 750,000                 | 159,616                  | 159,616                 | 319,232                      | 1,069,232  |
| 2026                     | -                       | -                           | -                            | 775,000                 | 142,216                  | 142,216                 | 284,432                      | 1,059,432  |
| 2027                     | -                       | -                           | -                            | 800,000                 | 124,236                  | 124,236                 | 248,472                      | 1,048,472  |
| 2028                     | -                       | -                           | -                            | 800,000                 | 105,676                  | 105,676                 | 211,352                      | 1,011,352  |
| 2029                     | -                       | -                           | -                            | 880,000                 | 87,116                   | 87,116                  | 174,232                      | 1,054,232  |
| 2030                     | -                       | -                           | -                            | 950,000                 | 66,700                   | 66,700                  | 133,400                      | 1,083,400  |
| 2031                     | -                       | -                           | -                            | 950,000                 | 44,660                   | 44,660                  | 89,320                       | 1,039,320  |
| 2032                     | -                       | -                           | -                            | 975,000                 | 22,620                   | 22,620                  | 45,240                       | 1,020,240  |
|                          | \$ 3,365,000            | \$ 446,985                  | \$ 3,811,985                 | \$ 11,360,000           | \$ 3,600,988             | \$ 3,776,689            | \$ 7,377,677                 | \$ 18,737,677                                      |
|                          |                         |                             |                              |                         |                          |                         |                              | \$ 22,549,662                                      |

\* Interest estimated at 4.64% for purposes of illustration.

**FINANCIAL STATEMENT**  
(Unaudited as of February 1, 2012)

**Assessed Value - Table 4**

|  |                              |
|--|------------------------------|
| 2011 Certified Assessed Valuation                        | \$725,177,656 <sup>(a)</sup> |
| Gross Debt Outstanding (after issuance of the Bonds)     | \$ 14,725,000 <sup>(b)</sup> |
| Ratio of Gross Debt to 2011 Certified Assessed Valuation | 2.03%                        |
| 2011 Tax Rate  |                              |
| Debt Service   | \$ 0.1194                    |
| Maintenance  | <u>0.2625</u>                |
| <b>Total 2011 Tax Rate</b>                               | <u><u>\$ 0.3819</u></u>      |
| Debt Service Fund Balance (December 19, 2011)            | \$ 288,836 <sup>(c)</sup>    |

Area of District: 997.33 acres  
Estimated 2011 Population: 10,498 <sup>(d)</sup>

- (a) Amount reflects the assessed valuation of the District as of January 1, 2011 as provided by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) After issuance of the Bonds.
- (c) Unaudited as of December 19, 2011. Does not include approximately twenty one months' capitalized interest included in the Bond proceeds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
- (d) Based on 3.5 residents per occupied single family connection and 2.5 connections per occupied apartment unit. According to the leasing staffs at the apartments, 632 units of the total 694 units are occupied as of January 1, 2012.

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

| Date of Authorization | Purpose                   | Authorized           | Issued to Date               | Unissued             |
|-----------------------|---------------------------|----------------------|------------------------------|----------------------|
| 4/7/1984              | Water, Sewer and Drainage | \$ 73,100,000        | \$ 29,635,000 <sup>(a)</sup> | \$ 43,465,000        |
| <b>Total</b>          |                           | <b>\$ 73,100,000</b> | <b>\$ 29,635,000</b>         | <b>\$ 43,465,000</b> |

- (a) Includes the Bonds.

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**Outstanding Bonds - Table 6**

| Dated Date                 | Purpose                          | Original Series | Original Principal Amount | Principal Amount Outstanding after Issuance of the Bonds |
|----------------------------|----------------------------------|-----------------|---------------------------|--|
| <b>A. New Money Bonds</b>  |                                  |                 |                           |  |
| 04/01/86                   | Water, Sanitary Sewer & Drainage | 1986            | \$ 5,225,000              | \$ -   |
| 11/01/86                   | Water, Sanitary Sewer & Drainage | 1986A           | 2,100,000                 | -  |
| 09/01/93                   | Water, Sanitary Sewer & Drainage | 1993            | 3,350,000                 | -  |
| 06/01/95                   | Water, Sanitary Sewer & Drainage | 1995            | 4,250,000                 | -  |
| 01/01/99                   | Water, Sanitary Sewer & Drainage | 1999            | 3,350,000                 | 1,670,000  |
| 05/01/12                   | Water, Sanitary Sewer & Drainage | 2012            | 11,360,000                | 11,360,000 (a)   |
| Subtotal - New Money Bonds |                                  |                 | \$ 29,635,000             | \$ 13,030,000  |
| <b>B. Refunding Bonds</b>  |                                  |                 |                           |  |
| 11/01/93                   | Refunding                        | 1993A           | 5,625,000                 | -  |
| 06/15/03                   | Refunding                        | 2003            | 4,714,712                 | 1,695,000  |
| Subtotal - Refunding Bonds |                                  |                 | \$ 10,339,712             | \$ 1,695,000   |
| Total                      |                                  |                 | \$ 39,974,712             | \$ 14,725,000  |

(a) The Bonds.

**Cash and Investment Balances (Unaudited as of December 19, 2011) - Table 7**

|                        |              |
|------------------------|--------------|
| General Operating Fund | \$ 2,776,458 |
| Debt Service Fund      | 288,836 (a)  |
| Capital Projects Fund  | 22,746       |

(a) Does not include approximately twenty one months' capitalized interest included in the Bonds. 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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch 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; (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 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 and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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

As of December 19, 2011, the District was currently invested in Texpool and Certificates of Deposit as shown below. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

|                          | Investment<br>Value as of<br>December 19, 2011 |
|--------------------------|--|
| Cash                     | \$ 63,044.65                                   |
| TexPool                  | 244,995  |
| Certificates of Deposit  | 2,780,000                                      |
| <b>Total Investments</b> | <b>\$ 3,088,040</b>                            |

#### Estimated Overlapping Debt Statement

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

| Taxing Body  | Net Debt      |          | % of<br>Overlapping<br>Net Debt | Amount of<br>Overlapping<br>Net Debt |
|--|---------------|----------|---------------------------------|--------------------------------------|
|  | Amount        | As of    |                                 |                                      |
| Williamson County  | 821,934,942   | 1/1/2012 | 1.53%                           | 12,572,826                           |
| Travis County  | 604,794,987   | 1/1/2012 | 0.21%                           | 1,247,585                            |
| Round Rock ISD   | 744,650,000   | 1/1/2012 | 1.01%                           | 7,507,489                            |
| Travis Co Healthcare District  | 16,000,000    | 1/1/2012 | 0.00%                           | -                                    |
| Austin Community College District  | 91,333,659    | 1/1/2012 | 0.60%                           | 543,993                              |
| Travis County ESD No. 4  | (a)           | 1/1/2012 | 0.00%                           | -                                    |
| Williamson County FM/RD Dist   | (a)           | 1/1/2012 | 0.00%                           | -                                    |
| Upper Brushy Creek WC&ID No. 1A  | (a)           | 1/1/2012 | 0.00%                           | -                                    |
| <b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>                                  |               |          |                                 | <b>\$ 21,871,894</b>                 |
| The District (b)   | \$ 14,725,000 | 5/1/2012 | 100.00%                         | <b>\$ 14,725,000</b>                 |
| <b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>                           |               |          |                                 | <b>\$ 36,596,894</b>                 |
| Ratio of Estimated and Overlapping Debt to Certified 2011 Assessed Valuation |               |          |                                 | 5.05%                                |

(a) Taxing jurisdiction with no outstanding debt.

(b) Includes the Bonds.



## Overlapping Taxes for 2011

| Overlapping Entity                | 2011 Tax Rates    |                   | Average Tax Bill <sup>(a)</sup> |                   |
|-----------------------------------|-------------------|-------------------|---------------------------------|-------------------|
|                                   | Travis County     | Williamson County | Travis County                   | Williamson County |
| District                          | \$0.381900        | \$0.381900        | \$ 709                          | \$ 709            |
| Williamson County                 |                   | 0.457687          | -                               | 849               |
| Travis County                     | 0.485500          |                   | 901                             | -                 |
| Round Rock ISD                    |                   | 1.335000          | -                               | 2,477             |
| Travis Co Healthcare District     | 0.078900          |                   | 146                             | -                 |
| Austin Community College District | 0.094800          |                   | 176                             | -                 |
| Travis County ESD No. 4           | 0.100000          |                   | 186                             | -                 |
| Williamson County FM/RD Dist      |                   | 0.030000          | -                               | 56                |
| Upper Brushy Creek WC&ID No. 1A   | -                 | 0.020000          | -                               | 37                |
| <b>TOTAL</b>                      | <b>\$1.141100</b> | <b>\$2.224587</b> | <b>\$2,117.15</b>               | <b>\$4,127.41</b> |

(a) Based on the 2010 average home value of \$185,536.

## TAX DATA

### Classification of Assessed Valuation (a) - Table 9

| Type Property                | 2011                  |                | 2010                  |                | 2009        |              |
|------------------------------|-----------------------|----------------|-----------------------|----------------|-------------|--------------|
|                              | Amount                | %              | Amount                | %              | Amount      | %            |
| Single Family                | \$ 484,221,245        | 66.12%         | \$ 480,838,862        | 66.23%         |             |              |
| Multifamily                  | 66,451,915            | 9.07%          | 62,260,114            | 8.58%          |             |              |
| Vacant Lot                   | 18,700,818            | 2.55%          | 18,838,187            | 2.59%          |             |              |
| Commercial Real Property     | 138,589,079           | 18.92%         | 139,004,465           | 19.15%         |             |              |
| Telephone Company            | 12,903,877            | 1.76%          | 13,247,120            | 1.82%          |             |              |
| Commercial Personal Property | 3,280,833             | 0.45%          | 3,262,445             | 0.45%          |             |              |
| Residential Inventory        | -                     | 0.00%          | 380,305               | 0.05%          |             |              |
| Exempt                       | 8,227,437             | 1.12%          | 8,226,739             | 1.13%          |             |              |
| <b>Total</b>                 | <b>\$ 732,375,204</b> | <b>100.00%</b> | <b>\$ 726,058,237</b> | <b>100.00%</b> | <b>\$ -</b> | <b>0.00%</b> |

(a) Reflects classification of assessed valuation as supplied by the TCAD and WCAD prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD and WCAD.

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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 reports and records of the District Tax Assessor/Collector. Reference is made to such reports and records for further and more complete information. See "Classification of Assessed Valuation" above.

| Year | Assessed Valuation | Tax Rate | Tax Levy     | Current      |         | Total        |         | Year Ending              |
|------|--------------------|----------|--------------|--------------|---------|--------------|---------|--------------------------|
|      |                    |          |              | Amount       | %       | Amount       | %       |                          |
| 1997 | \$ 318,753,910     | 0.7500   | \$ 2,388,626 | \$ 2,373,702 | 99.38%  | \$ 2,416,072 | 101.15% | 9/30/1998 <sup>(a)</sup> |
| 1998 | 334,097,407        | 0.7100   | 2,372,092    | 2,360,018    | 99.49%  | 2,378,333    | 100.26% | 9/30/1999 <sup>(a)</sup> |
| 1999 | 358,070,419        | 0.6850   | 2,452,782    | 2,434,484    | 99.25%  | 2,457,849    | 100.21% | 9/30/2000 <sup>(a)</sup> |
| 2000 | 430,750,390        | 0.5803   | 2,499,645    | 2,491,675    | 99.68%  | 2,520,789    | 100.85% | 9/30/2001 <sup>(a)</sup> |
| 2001 | 519,245,240        | 0.5500   | 2,855,849    | 2,842,237    | 99.52%  | 2,849,839    | 99.79%  | 9/30/2002 <sup>(a)</sup> |
| 2002 | 573,056,756        | 0.5100   | 2,922,589    | 2,904,905    | 99.39%  | 2,916,342    | 99.79%  | 9/30/2003 <sup>(a)</sup> |
| 2003 | 563,113,471        | 0.5000   | 2,815,567    | 2,801,396    | 99.50%  | 2,804,297    | 99.60%  | 9/30/2004 <sup>(a)</sup> |
| 2004 | 550,643,628        | 0.5000   | 2,753,218    | 2,737,770    | 99.44%  | 2,748,476    | 99.83%  | 9/30/2005 <sup>(a)</sup> |
| 2005 | 618,683,000        | 0.4500   | 2,784,074    | 2,773,589    | 99.62%  | 2,800,238    | 100.58% | 9/30/2006 <sup>(a)</sup> |
| 2006 | 574,662,278        | 0.4500   | 2,585,980    | 2,566,652    | 99.25%  | 2,578,886    | 99.73%  | 9/30/2007 <sup>(a)</sup> |
| 2007 | 687,512,648        | 0.4180   | 2,873,803    | 2,860,857    | 99.55%  | 2,871,847    | 99.93%  | 9/30/2008 <sup>(a)</sup> |
| 2008 | 758,441,956        | 0.4050   | 3,071,690    | 3,057,536    | 99.54%  | 3,065,471    | 99.80%  | 9/30/2009 <sup>(a)</sup> |
| 2009 | 751,978,703        | 0.3801   | 2,858,545    | 2,936,617    | 102.73% | 2,940,728    | 102.87% | 9/30/2010 <sup>(a)</sup> |
| 2010 | 706,041,677        | 0.3819   | 2,696,373    | 2,759,972    | 102.36% | 2,772,394    | 102.82% | 9/30/2011 <sup>(a)</sup> |
| 2011 | 725,177,656        | 0.3819   | 2,769,453    |              |         |              |         | 8/31/2012 <sup>(b)</sup> |

(a) Audited.

(b) Unaudited. Reflects collections through \_\_\_\_\_, 2012.

## District Tax Rates - Table 11

|              | Tax Rates per \$100 Assessed Valuation |           |           |           |           |           |
|--------------|--|-----------|-----------|-----------|-----------|-----------|
|              | 2011                                   | 2010      | 2009      | 2008      | 2007      | 2006      |
| Debt Service | \$ 0.1194                              | \$ 0.1219 | \$ 0.1200 | \$ 0.1600 | \$ 0.2480 | \$ 0.2600 |
| Maintenance  | 0.2625                                 | 0.2600    | 0.2601    | 0.2450    | 0.1700    | 0.1900    |
| Total        | \$ 0.3819                              | \$ 0.3819 | \$ 0.3801 | \$ 0.4050 | \$ 0.4180 | \$ 0.4500 |

## Tax Rate Limitation

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

## Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, and any tax bonds which may be issued in the future. At an election held on April 7, 1984, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2011 maintenance and operations tax of \$0.2625/\$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 2011, 2010, and 2009 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

| Name                             | Type of Property               | 2011                  | 2010                  | 2009                  |
|----------------------------------|--------------------------------|-----------------------|-----------------------|-----------------------|
| State Farm MU Auto Ins Co.       | Office Complex, Personal, Land | \$ 41,116,369         | \$ 41,420,824         | \$ 45,269,041         |
| HHC Amber Oaks V LLC             | Land and Improvements          | 37,208,820            | 39,088,718            | 46,866,847            |
| HHC Amber Oaks III LLC           | Land and Improvements          | 28,548,539            | 28,864,524            | 34,118,048            |
| IMT Capital Rattan Creek LP      | Land and Improvements          | 26,591,168            | 24,402,156            | 27,344,672            |
| Fund Amber Oaks LLC              | Land and Improvements          | 23,641,695            | 22,650,000            | 21,718,306            |
| FPW/WC Lake Creek Associates LLC | Land and Improvements          | 16,496,642            | 15,504,072            | 17,497,082            |
| LTP Real Estate Company Inc.     | Real Estate                    | 12,051,363            | 11,074,800            | 11,926,707            |
| SCI Parmer Fund 1 LLC ETAL       | Land and Improvements          | 10,671,053            | 9,359,579             | 11,001,145            |
| REO Amber Oaks II LLC            | Land and Improvements          | 9,176,434             | 9,832,420             | 13,903,727            |
| Austin Jack LLC                  | Land and Improvements          | 8,957,027             | 9,418,729             | 9,586,947             |
| <b>Total</b>                     |                                | <b>\$ 214,459,110</b> | <b>\$ 211,615,822</b> | <b>\$ 239,232,522</b> |
| Percent of Assessed Valuation    |                                | 29.57%                | 29.97%                | 31.81%                |

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2011 Certified Assessed Valuation and utilize tax rates adequate to service the District's projected total debt service requirements, including the Bonds (at an estimated interest rate of 4.64%). No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

|   |             |
|---|-------------|
| Projected Average Annual Debt Service Requirements on<br>the Bonds and the Outstanding Bonds (2012-2032)..... | \$1,073,793 |
| \$0.16 Tax Rate on the 2011 Certified Assessed Valuation of<br>\$725,177,656 @ 95% collections produces ..... | \$1,102,270 |
| Projected Maximum Annual Debt Service Requirements on the Bonds<br>and the Outstanding Bonds (2015).....      | \$1,245,795 |
| \$0.19 Tax Rate on the 2011 Certified Assessed Valuation of<br>\$725,177,656 @ 95% collections produces ..... | \$1,308,946 |

## Debt Service Fund Management Index

|   |                     |
|---|---------------------|
| Debt Service Requirements for year ending 12/31/12.....     | \$ 1,124,139 (a)    |
| Audited Debt Service Fund Balance as of 9/30/11 .....       | 261,244 (b)         |
| Capitalized interest included in Bond proceeds .....        | 922,432 (c)         |
| 2011 Debt Service Tax Levy @ 95% collections produces ..... | 822,569 (d)         |
| Total Available for Debt Service.....                       | <u>\$ 2,006,245</u> |

(a) Interest requirements on the Bonds begin August 1, 2012.

(b) Audited. Represents debt service fund balance after all 2011 debt service requirements have been paid.

(c) Preliminary and subject to change. Represents approximately twenty one months of capitalized interest which is projected to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.

(d) The District levied a 2011 debt service tax rate of \$0.1194.

## 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 and 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 Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA - Tax Rate Limitation."

### Property Tax Code and County-Wide Appraisal District

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

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

### Property Subject to Taxation by the District

**General:** Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. Additionally, a disabled veteran who receives 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual employability is entitled to an exemption from taxation of the total appraised value of their residence homestead, effective for the tax years beginning on or after January 1, 2009. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

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

**Tax Abatement:** Travis County and the District may enter into tax abatement agreements with owners of real property within such zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified

improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

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

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

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

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

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

### **District and Taxpayer Remedies**

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

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

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

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

the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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

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

### **District's Rights in the Event of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State 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 2011". 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 and further payable from and secured by a pledge of certain net revenues, if any, the District receives in connection with the System. 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 financed or refinanced with the proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at



maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

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

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

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

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

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

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

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



price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

### **Qualified Tax-Exempt Obligations**

The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.

## **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 material events, to certain information to the Municipal Securities Rulemaking Board ("MSRB"). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The District will provide certain updated financial information and operating data to certain information vendors 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 and will be available to the public free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

#### **Limitations and Amendments**

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

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

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

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made by it in accordance with the Rule, with the exception of the March 31, 2011 filing. Due to administrative oversight, audited financial statements and certain financial information for the fiscal year ending 2010 was not timely filed with the MSRB. A notice of late filing was filed, and the District has implemented procedures to ensure timely filing of all future financial information.

#### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Southwest Securities (the "Financial Advisor"), which firm was engaged in 2011 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

## OFFICIAL STATEMENT

### Preparation

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

"THE DISTRICT – City of Austin Consent Agreement" Arnbrust & Brown, PLLC; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT" - Travis Central Appraisal District, Williamson Central Appraisal District and Records of the District ("Records"); "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water And Wastewater Operations" - Audits, Records and Tax Assessor/Collector; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," and "TAX MATTERS" - McCall, Parkhurst & Horton L.L.P.

### Consultants

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

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

The auditor: The District's financial statements for the fiscal year ended September 30, 2011 were prepared by Belt Harris Pechacek, LLP ("Belt Harris"), Certified Public Accountants. Belt Harris serves as auditor to 20 other special districts. See "Appendix A" for a copy of the District's Audited Financial Statements as of September 30, 2011.

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 County 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 Ms. Tina Morton, 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 in the notice of sale accompanying this Official Statement. The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### **Certification as to Official Statement**

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

### **Annual Audits**

Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the Commission within 135 days after the close of the fiscal year once the District has issued bonds or has assets or receipts in excess of \$100,000. Prior to selling bonds or having assets over \$100,000, the District is allowed under State law to file a financial report in lieu of an audit. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of charges prescribed by the Texas Facilities Commission.

This Official Statement was approved by the Board of Directors of North Austin Municipal Utility District No. 1, as of the date shown on the first page hereof.

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Alan McNeil  
President, Board of Directors

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Jo Jones  
Secretary, Board of Directors

## PHOTOGRAPHS

The following photographs were taken in the District in [REDACTED] 2012. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."

**APPENDIX A**  
**Audited Financial Statement**

The information contained in this appendix has been excerpted from the audited financial statements of North Austin Municipal Utility District No. 1 for the fiscal year ended September 30, 2011. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

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

OFFICIAL NOTICE OF SALE

\$11,360,000

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT No. 1

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

UNLIMITED TAX BONDS, SERIES 2012

Selling (Bids Due): \_\_\_\_\_, 2012 at 11:00 A.M., C.D.T.

Award Expected: 12:00 Noon, C.D.T.

The Bonds are obligations solely of North Austin Municipal Utility District No. 1 (the "District") and are not obligations of Austin, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas or any entity other than the District.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

THE SALE

**Bonds Offered for Sale at Competitive Bidding . . .** The District is offering for sale \$11,360,000 Unlimited Tax Bonds, Series 2012 (the "Bonds"). Bids may be submitted by either of three alternative procedures: (i) sealed, written bids; (ii) electronic bids, or (iii) facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the District nor its Financial Advisor, Southwest Securities, assumes any responsibility or liability for a prospective bidding procedure.

The District and Southwest Securities assume no responsibility or liability with respect to any irregularities associated with the submission of electronic bids.

Southwest Securities will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System ("PARITY").

**Procedure Number 1: Sealed, Written Bids Delivered in Person. . .** Sealed, written bids, plainly marked "Bid for Bonds," should be addressed to the "Board of Directors of North Austin Municipal Utility District No. 1", and if delivered in person, delivered to Cheryl Allen, c/o Southwest Securities, 701 Brazos, Suite 400, Austin, Texas 78701, by 11:00 A.M., C.D.T., on the date of the bid opening. All bids must be submitted on the "Official Bid Form" without alteration or interlineations. Copies of the Official Bid Form accompany the Preliminary Official Statement.

**Procedure Number 2: Electronic Bidding Procedures. . .** Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY between 10:00 A.M., C.D.T. and 11:00 A.M., C.D.T., on the date of the bid opening.

Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid through PARITY. Further information about PARITY, including any fee charged, may be obtained from Dalcomp/Parity, 1359 Broadway, 2<sup>nd</sup> Floor, New York, New York 10018 attention: Eric Washington (212) 849-5021.

The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to either bidding system.

An electronic bid made through the facilities of PARITY shall be deemed a sealed irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. Neither Southwest Securities nor the District shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective bidder.

**All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale and the Official Bid Form. If any provisions of this Official Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Official Notice of Sale shall control.**

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the District, as described under "Basis of Award" below.

**The District and Southwest Securities will not be responsible for submitting any bids received after the above deadlines.**



**Procedure Number 3: Bids by Facsimile** . . . Bidders that choose to exercise the facsimile bidding options must submit their bid by facsimile on the date of the sale. Any bids received by facsimile will be attached to the signed Official Bid Form previously submitted.

Facsimile bids to the attention of Cheryl Allen will be accepted at (512) 320-5865, between 10:00 A.M. and 11:00 A.M., C.S.T on the date of the sale.

The District and Southwest Securities are not responsible if such facsimile number is busy or malfunctioning which prevents a bid or bids from being submitted on a timely basis. **The District and Southwest Securities will not be responsible for submitting any bids received after the above deadlines.** The District and Southwest Securities assume no responsibility or liability with respect to any irregularities associated with the submission of bids if the facsimile bid options are exercised.

**Signed Official Bid Forms** . . . The bidder whose bid is the winning bid in accordance with this Notice of Sale will be notified immediately and must submit a fax of a Signed Official Bid Form in connection with the sale, by 11:30 AM C.D.T. on the date of the sale to Cheryl Allen, Southwest Securities, (512) 320-5865.

**Place and Time of Bid Opening** . . . The Board will publicly review bids for the purchase of the Bonds at the designated meeting place outside the boundaries of the District, at Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701 at 12:00 Noon, C.D.T. on \_\_\_\_\_, 2012.

**Award of Bonds** . . . The District will take action to award the Bonds or reject all bids promptly upon the opening of bids. Upon awarding the Bonds, the District will also adopt the order authorizing issuance of the Bonds (the "Bond Order") and will approve the Official Statement, which will be an amended form of the Preliminary Official Statement. Sale of the Bonds will be made subject to the terms, conditions and provisions of the Bond Order to which Bond Order reference is hereby made for all purposes. The District reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

**Withdrawal of the Bids** . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for three hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

**Extension of Sale Date** . . . The District reserves the right to extend the date and/or time for the receipt of bids by giving notice, by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, C.S.T, on \_\_\_\_\_, 2012, of the new date and time for receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

## THE BONDS

**Description of Bonds** . . . Interest on the Bonds will accrue from May 1, 2012 and is payable August 1, 2012 and each February 1 and August 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year comprised 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/registrant for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent"). The Bonds mature serially on August 1 in the years and amounts shown below.

| <b>Maturity<br/>(August 1)</b> | <b>Principal<br/>Amount</b> | <b>Maturity<br/>(August 1)</b> | <b>Principal<br/>Amount</b> |
|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
| 2013                           | \$ 5,000                    | 2023                           | \$ 700,000                  |
| 2014                           | 25,000                      | 2024                           | 725,000                     |
| 2015                           | 50,000                      | 2025                           | 750,000                     |
| 2016                           | 150,000                     | 2026                           | 775,000                     |
| 2017                           | 200,000                     | 2027                           | 800,000                     |
| 2018                           | 300,000                     | 2028                           | 800,000                     |
| 2019                           | 400,000                     | 2029                           | 880,000                     |
| 2020                           | 600,000                     | 2030                           | 950,000                     |
| 2021                           | 650,000                     | 2031                           | 950,000                     |
| 2022                           | 675,000                     | 2032                           | 975,000                     |

The District reserves the right to redeem prior to maturity those Bonds maturing on August 1 in each of the years 2020 through 2032, inclusive, in whole or from time to time in part on August 1, 2019, or any date thereafter, in integral multiples of \$5,000 at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the particular Bonds thereof shall be selected and designated by the District, and if less than all of the Bonds within a maturity are redeemed, the particular Bonds or portions thereof to be redeemed shall be selected by the Paying Agent by lot.

Bidders have the right, as specified in the Official Bid Form, to designate any or all of the maturities of the Bonds as term bonds subject to mandatory sinking fund redemption provided that the mandatory sinking fund amount in each year shall equal the amounts shown in the maturity schedule as maturing in such year.

**Successor Registrars . . .** The Paying Agent may be removed from its duties as Paying Agent with or without cause by action of the Board of Directors of the District upon thirty (30) days notice to be effective at such time which will not disrupt orderly payment on the next principal or interest payment date, but no such removal shall become effective until a successor Paying Agent has accepted the duties of the Paying Agent by written instrument. Every Paying Agent appointed by the Board of Directors must be a competent and legally qualified bank, trust company, financial institution or other agency qualified to act as and perform the services as Paying Agent.

**Source of Payment . . .** The Bonds, when issued, will constitute valid and binding obligations of the District payable as to principal and interest from the proceeds of a continuing, direct, annual ad valorem tax levied against taxable property located within the District, without legal limitation as to rate or amount.

**Book-Entry-Only System . . .** The District intends to utilize the book-entry-only system of The Depository Trust Company ("DTC"). See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.

**Other Terms and Covenants . . .** Other terms of the Bonds and various covenants of the District contained in the Bond Order under which the Bonds are to be issued are described in the Preliminary Official Statement, to which reference is made for all purposes.

#### **CONDITIONS OF SALE**

**Types of Bids and Interest Rates . . .** The Bonds will be sold in one block, all or none, and no bid of less than 97% of par value plus accrued interest to the date of delivery will be considered. Bidders must specify the rate or rates of interest the Bonds will bear. The difference between the highest interest rate bid and the lowest interest rate bid shall not exceed 2%. Interest rates must be in multiples of 1/8th or 1/20th of 1%. Any number of interest rates and rate changes may be named, but graduating or declining interest rates within a maturity, split interest rates within a maturity, or supplemental or zero interest rates will not be acceptable.

**Basis of Award . . .** For the purpose of awarding sale of the Bonds, the total interest cost of each bid will be computed by determining, at the rate or rates specified, the total dollar value of all interest on the Bonds from the date thereof to their respective maturities and adding thereto the dollar amount of the discount bid, if any, or deducting therefrom the premium bid, if any. Subject to the right of the District to reject any or all bids, the Bonds will be awarded to the bidder whose bid, based on the above computation, produces the lowest interest cost to the District. In the event of mathematical discrepancies between the interest rates and the interest cost determined therefrom, as both appear on the "Official Bid Form," the bid will be determined solely from the interest rates shown on the "Official Bid Form."

**Good Faith Deposit . . .** Each bid must be accompanied by a bank cashier's check payable to the order of "North Austin Municipal Utility District No. 1" in the amount of \$227,200 which is 2% of the par value of the Bonds. The check will be considered as a Good Faith Deposit, and the check of the successful bidder (the "Initial Purchaser") will be retained uncashed by the District until the Bonds are delivered. Upon payment for and delivery of the Bonds, the Good Faith Deposit will be returned to the Initial Purchaser uncashed. If the Initial Purchaser should fail or refuse to make payment for or accept delivery of the Bonds in accordance with its bid, then the check will be cashed and accepted by the District as full and complete liquidated damages. Such check may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the District prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which authorize its use as a Good Faith Deposit. The checks of the unsuccessful bidders will be returned immediately after bids are opened and sale of the Bonds has been awarded.

#### **OFFICIAL STATEMENT**

By accepting the winning bid, the District agrees to the following representations and covenants to assist the Initial Purchaser in complying with Rule 15c2-12 of the Securities and Exchange Commission ("SEC").

**Final Official Statement . . .** The District has prepared the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Bonds, but will not prepare any other document or version for such purpose except as described below. The District will be responsible for completing the Official Statement by inserting the interest rates bid, the purchase price bid, the ratings assigned to the Bonds (if not currently included) if applicable, the purchase of municipal bond insurance, if any, the initial public offering yields as set forth in the Official Bid Form, or otherwise supplied by the Initial Purchaser, and for preparing and inserting the final debt service schedule. The District does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. Accordingly, the District deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of SEC Rule 15c2-12(b)(1), except for the omission of the foregoing items. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Initial Purchaser on or after the sale date, the District represents the same to be complete as of such date, within the meaning of SEC Rule 15c2-12(e)(3). Notwithstanding the foregoing, the only representations concerning the absence of material misstatements or omissions from the Official Statement which are or will be made by the District are those described in the Official Statement under "OFFICIAL STATEMENT - Certification as to Official Statement."

**Changes to 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 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.

**Delivery of Official Statements . . .** The District will furnish to the Initial Purchaser (and to each other participating underwriter of the Bonds, within the meaning of SEC Rule 15c2-12(a), designated by the Initial Purchaser), within seven (7) business days after the sale date, the aggregate number of Official Statements requested but not in excess of 250 copies. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above in "OFFICIAL STATEMENT - Changes to Official Statement During Underwriting Period" as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may request prior to the 25th day after the "end of the underwriting period" within the meaning of the Rule. The District will pay the expense of preparing up to 250 copies of the Official Statement and all copies of any supplement or amendment issued on or before the delivery date, but the Initial Purchaser must pay for all other copies of the Official Statement or any supplement or amendment thereto.

**Rule G-36 Requirements . . .** It is the responsibility of the Initial Purchaser to comply with the Municipal Securities Rulemaking Board's Rule G-36 within the required time frame. The Initial Purchaser must send two copies of the "Official Statement" along with two complete Form G-36's to the appropriate address.

## DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS

**Delivery** . . . The Bonds will be tendered to the Initial Purchaser as a single typewritten, photocopied or otherwise reproduced bond for each maturity in fully registered form in the aggregate principal amount of \$11,360,000 payable to the Initial Purchaser or its representative as designated in the Official Bid Form, manually signed by the President and Secretary of the Board of Directors, or executed by the facsimile signatures of the President and Secretary of the Board of Directors, and approved by the Attorney General of the State of Texas and registered and manually signed by the Comptroller of Public Accounts of the State of Texas. Initial delivery will be at the designated office for payment of the Paying Agent in Austin, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six business days' notice of the time fixed for delivery of the Bonds. It is anticipated that initial delivery can be made on or about \_\_\_\_\_, 2012, and it is understood and agreed that the Initial Purchaser will accept delivery and make payment for the Bonds not later than 10:00 AM., C.D.T. on \_\_\_\_\_, 2012 or thereafter on the date the Bonds are tendered for delivery up to and including \_\_\_\_\_, 2012. If for any reason the District is unable to make delivery on or before \_\_\_\_\_, 2012 then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend his offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend their offer within five (5) business days thereafter, then the Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

**DTC Definitive Bonds** . . . The Bonds will be issued in book-entry-only form and registered in the name of Cede & Co. as the nominee for DTC. All reference herein and in the Official Statement to the bondholders or registered owners of the Bonds shall mean Cede & Co. and not the beneficial owners of the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry form in the denomination of \$5,000 principal amounts or any integral multiple thereof. Under certain limited circumstances, the District may determine to forego immobilization of the Bonds at DTC, or another securities depository, in which case, such beneficial interests would become exchangeable for definitive printed obligations of like principal amount.

**CUSIP Numbers** . . . It is anticipated that CUSIP identification numbers will be printed or otherwise reproduced on the Bonds, but neither the failure to print such numbers on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Notice of Sale and the terms of the Official Bid Form. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid by the District. However, the CUSIP Service Bureau charge for the assignment of the numbers shall be the responsibility of and shall be paid for by the Initial Purchaser.

**Conditions to Delivery** . . . The obligation of the Initial Purchaser to take up and pay for the Bonds is subject to the Initial Purchaser's receipt of the legal opinion of the Attorney General of Texas and the legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel for the District ("Bond Counsel"), and the no-litigation certificate, all described below, and the non-occurrence of the events described below under "No Material Adverse Change." In addition, if the District fails to comply with its obligations under "OFFICIAL STATEMENT" above, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

**Legal Opinions** . . . The District will furnish the Initial Purchaser a transcript of certain proceedings held incident to the authorization and issuance of the Bonds, including a certified copy or original of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property within the District. The District also will furnish the legal opinion of McCall, Parkhurst & Horton L.L.P. Bond Counsel, to the effect that, based upon an examination of such transcript, (1) the Bonds are valid and legally 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, (2) the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against taxable property within the District and (3) pursuant to the Internal Revenue Code of 1986, (the "Code") then in effect and existing regulations, published rulings, and court decisions thereunder and assuming continuing compliance by the District with the provisions of the Bond Order, the interest on the Bonds is excludable from the gross income, and will not be subject to the alternative minimum tax for federal income tax purposes. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. Neither the opinion of the Attorney General nor the opinion of Bond Counsel will express any opinion or make any comment with respect to the sufficiency of the security for or the marketability of the Bonds.

**Certification of Issue Price** . . . In order to provide the District with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended, relating to the exemption of interest on the Bonds from the gross income of their owners, the Initial Purchaser will be required to complete, execute, and deliver to the District (on or before the date of delivery of the Bonds) a certification as to the "issue price" of the Bonds substantially in the form accompanying this "Notice of Sale" of the Bonds. In the event the successful bidder will not re-offer the Bonds for sale or is unable to sell a substantial amount of the

Bonds of any maturity by the date of delivery, such certificate may be modified in a manner approved by the District and Bond Counsel. Each bidder, by submitting its bid, agrees to complete, execute, and deliver such a certificate by the date of delivery of the Bonds, if its bid is accepted by the District. It will be the responsibility of the Initial Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel. In no event will the District fail to deliver the Bonds as a result of the Initial Purchaser's inability to sell a substantial amount of the Bonds at a particular price prior to delivery.

**No Material Adverse Change . . .** The obligations of the District to deliver the Bonds and of the Initial Purchaser to accept delivery of and pay for the Bonds are subject to the condition that at the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition of the District from those set forth in or contemplated by the "Preliminary Official Statement" as it may have been supplemented or amended through the date of sale.

**No-Litigation Certificate . . .** On the date of delivery of the Bonds to the Initial Purchaser, the District will deliver to the Initial Purchaser a certificate, as of the same date, to the effect that to the best of the District's knowledge no litigation of any nature is pending or, to the best of the certifying officers' knowledge or belief, threatened against the District, contesting or affecting the Bonds; restraining or enjoining the authorization, execution, or delivery of the Bonds; affecting the provision 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 or the title of the present officers and directors of the District.

#### CONTINUING DISCLOSURE

The District will agree in the Bond Order to provide certain periodic information and notices of material events in accordance with the Rule, as described in the Preliminary Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Initial Purchaser's obligation to accept and pay for the Bonds is conditioned upon delivery to the Initial Purchaser(s) or its (their) agent of a certified copy of the Bond Order containing the agreement described under such heading.

#### GENERAL CONSIDERATIONS

**Record Date . . .** The record date ("Record Date") for the interest payable on any interest payment date means the 15th calendar day of the month next preceding such interest payment date.

**Record Date for Bonds to be Redeemed . . .** Neither the District nor the Paying Agent shall be required (1) to issue, transfer, or exchange any Bond during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal on interest payment date or (2) to transfer or exchange, in whole or in part, any Bond or any portion thereof selected for redemption prior to maturity, within forty-five (45) calendar days prior to its redemption date.

**Municipal Bond Rating and Insurance . . .** In connection with the sale of the Bonds, the District has made application to Moody's Investors Service, Inc. ("Moody's") for a municipal bond rating and has received a "\_\_\_\_\_" underlying rating. The District has qualified for municipal bond insurance insuring the timely payment of the principal of and interest on the Bonds. The payment of all costs related to the underlying ratings will be at the expense of the District. The purchase of municipal bond insurance and the payment of all costs related thereto will be at the option and expense of the Initial Purchaser.

**Investment Considerations . . .** The Bonds involve certain investment considerations and all prospective bidders are urged to examine carefully the Preliminary Official Statement with respect to the investment considerations associated with the Bonds. Particular attention should be given to the information set forth therein under the caption "INVESTMENT CONSIDERATIONS."

**Reservation of Rights . . .** The District reserves the right to reject any and all bids and to waive any and all irregularities, except time of filing.

**Not an Offer to Sell . . .** This Official Notice of Sale does not alone constitute an offer to sell the Bonds but is merely notice of sale of the Bonds. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form.

**Registration and Qualification Under Securities Laws . . .** The offer and sale of the Bonds have not been registered or qualified 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 or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated 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.

By submission of a bid, the Initial Purchaser represents that its sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or qualification or, where necessary, the Initial Purchaser will register and qualify the Bonds in accordance with the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Initial Purchaser's written request and expense, in registering or qualifying the Bonds, or in obtaining exemption from registration or qualification, in any state where such action is necessary, provided that the District shall not be required to file a general or special consent to service of process in any jurisdiction.

**Copies of Documents . . .** Copies of the Official Notice of Sale, the Preliminary Official Statement, the Official Bid Form, Audits, and the pro forma Bond Order may be obtained at the offices of Southwest Securities, 701 Brazos Street, Suite 400, Austin, Texas 78701, Financial Advisor to the District.

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

          , 2012

# **OFFICIAL BID FORM**

President and Board of Directors  
 North Austin Municipal Utility District No. 1  
 c/o Southwest Securities  
 701 Brazos Street, Suite 400  
 Austin, Texas 78701

Directors:

We have read in detail the Official Notice of Sale and Preliminary Official Statement of North Austin Municipal Utility District No. 1 (the "District") relating to its \$11,360,000 Unlimited Tax Bonds, Series 2012 (the "Bonds"), which by reference are made a part hereof. We recognize the investment considerations involved in these securities, and have made such inspections and investigations as we deem necessary in order to evaluate the investment quality of the Bonds. Accordingly, we offer to purchase the District's legally issued Bonds, upon the terms and conditions set forth in the Bond Order, the Official Notice of Sale and the Preliminary Official Statement, for a cash price of \$\_\_\_\_\_ (which represents \_\_\_\_\_% of par value) plus accrued interest to the date of delivery of the Bonds to us, provided such Bonds mature August 1 and bear interest in each year at the following rates:

| Year of Maturity* | Principal Amount | Interest Rate | Year of Maturity* | Principal Amount | Interest Rate |
|-------------------|------------------|---------------|-------------------|------------------|---------------|
| 2013              | \$ 5,000         | _____%        | 2023              | \$ 700,000       | _____%        |
| 2014              | 25,000           | _____%        | 2024              | 725,000          | _____%        |
| 2015              | 50,000           | _____%        | 2025              | 750,000          | _____%        |
| 2016              | 150,000          | _____%        | 2026              | 775,000          | _____%        |
| 2017              | 200,000          | _____%        | 2027              | 800,000          | _____%        |
| 2018              | 300,000          | _____%        | 2028              | 800,000          | _____%        |
| 2019              | 400,000          | _____%        | 2029              | 880,000          | _____%        |
| 2020              | 600,000          | _____%        | 2030              | 950,000          | _____%        |
| 2021              | 650,000          | _____%        | 2031              | 950,000          | _____%        |
| 2022              | 675,000          | _____%        | 2032              | 975,000          | _____%        |

\* The District reserves the right to redeem, prior to maturity, those Bonds maturing on August 1, in each of the years 2020 through 2032, inclusive, in whole or from time to time in part on August 1, 2019 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.

Our calculation (which is not a part of this bid) of the interest cost from the above bid is:

|                                  |          |
|----------------------------------|----------|
| Total Interest Cost.....         | \$ _____ |
| Plus: Cash Discount.....         | \$ _____ |
| Net Interest Cost .....          | \$ _____ |
| Net Effective Interest Rate..... | _____ %  |

The mandatory sinking fund installments checked above, if any, shall be applied for the redemption of term bonds maturing as follows:

| <u>Term Bond<br/>Maturity Date<br/>August 1</u> | <u>Year of First<br/>Mandatory<br/>Redemption</u> | <u>Principal<br/>Amount of<br/>Term Bond</u> | <u>Interest<br/>Rate</u> |
|---|---|--|--------------------------|
| _____   | _____   | _____  | _____%                   |
| _____   | _____   | _____  | _____%                   |
| _____   | _____   | _____  | _____%                   |

The initial bond shall be registered in the name of \_\_\_\_\_ (syndicate manager). We will advise the office of BOKF, N.A., dba Bank of Texas, Austin, Texas, the Registrar, on forms to be provided by the Registrar, of our registration instructions at least five business days prior to the date set for initial delivery of Bonds on the closing date. We will not ask the Registrar to accept any registration instructions after the five day period for delivery of Bonds on the closing date.

Cashier's Check No. \_\_\_\_\_, issued by \_\_\_\_\_ Bank, \_\_\_\_\_, Texas and payable to your order in the amount of \$227,200 (is attached hereto) (has been made available to you prior to the opening of this bid) as the Good Faith Deposit for disposition in accordance with the terms and conditions set forth in the Official Notice of Sale. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions of such Official Notice of Sale, such check shall be cashed and the proceeds retained as complete liquidated damages against us. We hereby represent that sale of the Bonds in states other than Texas will be made only pursuant to exemptions from registration or qualification and that, where necessary, we will register or qualify the Bonds in accordance with the securities laws of the states in which the Bonds are offered or sold.

The Purchaser will purchase bond insurance from \_\_\_\_\_ (the "Insurer") for a fee/premium of \$\_\_\_\_\_ (the "Fee"). The Fee is a reasonable amount payable solely for the transfer of credit risk for the payment of debt service on the Bonds and does not include any amount payable for a cost other than such guarantee, e.g., a credit rating or legal fees. The Purchaser represents that the present value of the Fee for each obligation constituting the Bonds to which such Fee is properly allocated and which are insured thereby is less than the present value of the interest reasonably expected to be saved as a result of the insurance on each obligation constituting the Bonds. The Fee has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Bonds. In determining present value for this purpose, the yield of the Bonds (determined with regard to the payment of the guarantee fee) has been used as the discount rate. No portion of the Fee is refundable upon redemption of any of the Bonds in an amount which would exceed the portion of such Fee that has not been earned.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District. The undersigned further agrees to provide in writing the initial reoffering prices and other term, if any, to Southwest Securities by the close of the next business day after the award.

(Syndicate members, if any)

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Respectfully submitted,

\_\_\_\_\_  
\_\_\_\_\_  
By: \_\_\_\_\_  
(Authorized Representative)  
Phone Number: \_\_\_\_\_

#### ACCEPTANCE CLAUSE

The above and foregoing bid is hereby accepted by North Austin Municipal Utility District No. 1 this \_\_\_\_ day of \_\_\_\_\_, 2012.

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors

\_\_\_\_\_  
President, Board of Directors



# BOND YEARS

Interest Accrues From: May 1, 2012

Due: August 1

| Year | Amount   | Bond<br>Years | Cumulative<br>Bond Years | Year |
|------|----------|---------------|--------------------------|------|
| 2013 | \$ 5,000 | 1.2500        | 1.2500                   | 2013 |
| 2014 | 25,000   | 31.2500       | 32.5000                  | 2014 |
| 2015 | 50,000   | 112.5000      | 145.0000                 | 2015 |
| 2016 | 150,000  | 893.7500      | 1,038.7500               | 2016 |
| 2017 | 200,000  | 1,275.0000    | 2,313.7500               | 2017 |
| 2018 | 300,000  | 1,968.7500    | 4,282.5000               | 2018 |
| 2019 | 400,000  | 3,750.0000    | 8,032.5000               | 2019 |
| 2020 | 600,000  | 4,531.2500    | 12,563.7500              | 2020 |
| 2021 | 650,000  | 5,362.5000    | 17,926.2500              | 2021 |
| 2022 | 675,000  | 6,243.7500    | 24,170.0000              | 2022 |
| 2023 | 700,000  | 7,175.0000    | 31,345.0000              | 2023 |
| 2024 | 725,000  | 8,156.2500    | 39,501.2500              | 2024 |
| 2025 | 750,000  | 9,187.5000    | 48,688.7500              | 2025 |
| 2026 | 775,000  | 10,268.7500   | 58,957.5000              | 2026 |
| 2027 | 800,000  | 11,400.0000   | 70,357.5000              | 2027 |
| 2028 | 800,000  | 12,581.2500   | 82,938.7500              | 2028 |
| 2029 | 880,000  | 13,812.5000   | 96,751.2500              | 2029 |
| 2030 | 950,000  | 15,525.0000   | 112,276.2500             | 2030 |
| 2031 | 950,000  | 17,337.5000   | 129,613.7500             | 2031 |
| 2032 | 975,000  | 18,768.7500   | 148,382.5000             | 2032 |

Total Bond Years: 148,382.50

Average Maturity: 12.542899 years

### ISSUE PRICE CERTIFICATE

The undersigned hereby certifies with respect to the sale of the North Austin Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2012 (the "Bonds"), issued in the aggregate principal amount of \$11,360,000, as follows:

1. The undersigned is the duly authorized representative of the purchaser (the "Purchaser") of the Bonds from North Austin Municipal Utility District No. 1 (the "Issuer").
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below:

| Principal<br>Amount at<br>Maturity |          |  | Price/<br>Yield | Principal<br>Amount at<br>Maturity |          |                 |
|------------------------------------|----------|--|-----------------|------------------------------------|----------|-----------------|
|                                    | Maturity |  |                 |                                    | Maturity | Price/<br>Yield |
| \$ 5,000                           | 2013     |  |                 | \$ 700,000                         | 2023     |                 |
| 25,000                             | 2014     |  |                 | 725,000                            | 2024     |                 |
| 50,000                             | 2015     |  |                 | 750,000                            | 2025     |                 |
| 150,000                            | 2016     |  |                 | 775,000                            | 2026     |                 |
| 200,000                            | 2017     |  |                 | 800,000                            | 2027     |                 |
| 300,000                            | 2018     |  |                 | 800,000                            | 2028     |                 |
| 400,000                            | 2019     |  |                 | 880,000                            | 2029     |                 |
| 600,000                            | 2020     |  |                 | 950,000                            | 2030     |                 |
| 650,000                            | 2021     |  |                 | 950,000                            | 2031     |                 |
| 675,000                            | 2022     |  |                 | 975,000                            | 2032     |                 |

5. In the case of the Retained Maturities, the Purchaser reasonably expected on the offering date to sell a substantial amount (i.e., at least ten (10) percent) of each Retained Maturity at the initial offering price/yield as set forth below:

| Principal<br>Amount at<br>Maturity | Maturity | Price/<br>Yield | Principal<br>Amount at<br>Maturity | Maturity | Price/<br>Yield |
|------------------------------------|----------|-----------------|------------------------------------|----------|-----------------|
| \$ 5,000                           | 2013     | _____           | \$ 700,000                         | 2023     | _____           |
| 25,000                             | 2014     | _____           | 725,000                            | 2024     | _____           |
| 50,000                             | 2015     | _____           | 750,000                            | 2025     | _____           |
| 150,000                            | 2016     | _____           | 775,000                            | 2026     | _____           |
| 200,000                            | 2017     | _____           | 800,000                            | 2027     | _____           |
| 300,000                            | 2018     | _____           | 800,000                            | 2028     | _____           |
| 400,000                            | 2019     | _____           | 880,000                            | 2029     | _____           |
| 600,000                            | 2020     | _____           | 950,000                            | 2030     | _____           |
| 650,000                            | 2021     | _____           | 950,000                            | 2031     | _____           |
| 675,000                            | 2022     | _____           | 975,000                            | 2032     | _____           |

6. The undersigned understands that the foregoing information will be relied upon by the District with respect to certain of the representations set forth in the Federal Tax Certificate prepared by the District in connection with the issuance of the Bonds and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the District that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

EXECUTED AND DELIVERED this \_\_\_\_\_ day of \_\_\_\_\_, 2012.

\_\_\_\_\_  
(PURCHASER)

By: \_\_\_\_\_

Title: \_\_\_\_\_