

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 28, 2016**

In the opinion of Bracewell LLP, Special Tax Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not “private activity bonds.” See “TAX MATTERS” for a discussion of the opinion of Special Tax Counsel, including a description of alternative minimum tax consequences for corporations.

**THE BONDS WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”**  
**FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions.”**

**NEW ISSUE – Book-Entry Only**

**Rating:**  
**Moody’s: Applied For**  
**Insurance: Applied For**

**\$2,900,000\***  
**CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**  
*(A political subdivision of the State of Texas located within Travis County)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**Dated Date: October 1, 2016**

**Due: August 15, as shown on the inside cover page**

**Interest to Accrue from the Date of Initial Delivery**

The bonds described above (the “Bonds”) are obligations solely of Cypress Ranch Water Control and Improvement District No. 1 (the “District”) and are not obligations of the State of Texas, Travis County, Lake Travis Independent School District or any entity other than the District.

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. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See “RISK FACTORS.”

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially BOKF, NA, Austin, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds is payable each February 15 and August 15, commencing February 15, 2017, until maturity or prior redemption. Interest on the Bonds will accrue from the date of initial delivery and will be payable on the basis of a 360 day year of twelve 30 day months. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”

Proceeds of the Bonds will be used to (i) refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2010 as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) pay the costs associated with the issuance of the Bonds.

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**CUSIP PREFIX: 23281E**  
**MATURITY SCHEDULE**  
**See Inside Cover Page**

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The Bonds are offered by the winning bidder therefor (the “Underwriter”) subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Freeman & Corbett, Austin, Texas, Bond Counsel. Bracewell LLP will serve as special tax counsel for the offering. Certain legal matters will be passed on for the Underwriter by its counsel, Andrews Kurth Kenyon LLP, Austin, Texas. See “LEGAL MATTERS.” Delivery of the Bonds through DTC is expected on or about November 3, 2016.

**RBC CAPITAL MARKETS**

\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

**MATURITY SCHEDULE\***

<u>8/15 Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield<sup>(a)</sup></u>	<u>CUSIP Numbers<sup>(c)</sup></u>
2017	\$ 35,000			
2018	30,000			
2019	120,000			
2020	125,000			
2021	130,000			
2022	140,000			
2023	140,000			
2024 <sup>(b)</sup>	145,000			
2025 <sup>(b)</sup>	155,000			
2026 <sup>(b)</sup>	155,000			
2027 <sup>(b)</sup>	165,000			
2028 <sup>(b)</sup>	175,000			
2029 <sup>(b)</sup>	175,000			
2030 <sup>(b)</sup>	180,000			
2031 <sup>(b)</sup>	195,000			
2032 <sup>(b)</sup>	200,000			
2033 <sup>(b)</sup>	205,000			
2034 <sup>(b)</sup>	210,000			
2035 <sup>(b)</sup>	220,000			

**(Interest to accrue from the date of initial delivery)**

\* Preliminary, subject to change.

- (a) Initial yield represents the initial offering held to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed by the Underwriter.
- (b) Bonds maturing on or after August 15, 20\_\_\_, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 20\_\_\_, or on any date thereafter at a price of par value from the most recent interest payment date to the date fixed for redemption.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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. Neither the Underwriter, the District, nor 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, this document constitutes an 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 no more than the information permitted by Rule 15c2-12.

This OFFICIAL STATEMENT is not to be used in an offer to sell or the solicitation of an 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, resolutions, orders, contracts, audited financial statements, 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 Freeman & Corbett, Bond Counsel, 8500 Bluffstone Cove, Suite B-104, Austin, Texas 78759, 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 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, the other matters described in this OFFICIAL STATEMENT until delivery of the Bonds to the Underwriter (as herein defined) and thereafter only as specified in “PREPARATION OF OFFICIAL STATEMENT – Updating the Official Statement.”

## SALE AND DISTRIBUTION OF THE BONDS

**UNDERWRITING . . .** The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof less an Underwriter's discount of \$\_\_\_\_\_. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

RBC Capital Markets, LLC has provided the following information for inclusion in this Official Statement: The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, 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 and the Bonds have not 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 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.

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## OFFICIAL STATEMENT SUMMARY

The following is a brief summary of certain information contained herein which is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this OFFICIAL STATEMENT. The summary should not be detached and should be used in conjunction with more complete information contained herein. A full review should be made of the entire OFFICIAL STATEMENT and of the documents summarized or described therein.

### THE DISTRICT

<i>Description...</i>	<p>The District is a water control and improvement district created by an Order of the TCEQ dated March 18, 2003. The creation of the District was confirmed at an election held within the District on September 13, 2003. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 51 of the Texas Water Code, as amended.</p> <p>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. The TCEQ exercises continuing supervisory jurisdiction over the District. See "THE DISTRICT."</p>
<i>Location...</i>	<p>The District is located in Travis County approximately 14.5 miles west of the central business district of the City of Austin and lies wholly outside the extraterritorial jurisdiction of any city and within the boundaries of the Lake Travis Independent School District. The District is located on the south side of State Highway 71, approximately 9 miles west of the intersection of State Highway 71 and State Highway 620.</p> <p>The District is currently comprised of 446.32 acres being developed as West Cypress Hills, a single-family residential project. See "AERIAL LOCATION MAP."</p>
<i>The Developer...</i>	<p>The property within the District is being developed by Cypress Ranch, Ltd. (the "Developer"), which owns property within the District. See "THE DEVELOPERS."</p>
<i>Homebuilders...</i>	<p>The Developer has entered into lot sales contracts with Highland Homes and MileStone Community Builders. One additional builder, Wilshire Homes (formerly Plantation Homes), has fulfilled its obligation to purchase lots in the District and is currently completing build-out on their lots. See "THE DISTRICT – Homebuilders."</p>
<i>Status of Development...</i>	<p>As of August 1, 2016, water, wastewater, streets and drainage facilities had been completed to serve Phase 1, Sections 1, 2, 3A, 3B and 4A and Phase 2, Sections 1, 2 and 3 consisting of 416 single-family residential lots on approximately 130 acres and a total of 368 homes had been constructed (362 occupied) and 14 homes remained under construction. There are approximately 171 developable acres which have not yet been provided with water distribution, wastewater collection and storm drainage facilities and approximately 145 acres that are non-developable (recreation, drainage and greenbelts). Homes within the District range in size from 2,000 sf. to 4,200 sf. and in sales price from \$308,000 to in excess of \$490,000. See "THE DISTRICT."</p>
<i>Payment Record...</i>	<p>The District has never defaulted in the timely payment of principal of or interest on its outstanding obligations</p>

### THE BONDS

<i>Description...</i>	<p>The \$2,900,000* Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds") are being issued pursuant to a resolution (the "Bond Resolution") authorizing the issuance of the Bonds adopted by the District's Board of Directors (the "Board") as fully registered bonds. The Bonds are scheduled to mature as serial Bonds August 15, 2017 through 2035. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds accrues from the date of initial delivery and is payable February 15, 2017, and each August 15 and February 15 thereafter, until the earlier of maturity or redemption. See "THE BONDS."</p>
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\* Preliminary, subject to change.

<i>Book-Entry-Only...</i>	The Depository Trust Company (defined as “DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for each maturity of the Bonds and will be deposited with DTC.
<i>Redemption...</i>	Bonds maturing on or after August 15, 20___, are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on August 15, 20___, or on any date thereafter at a price of par value from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.” Additionally, the Bonds may be subject to mandatory sinking fund redemption in the even the Underwriter elects to designate two or more maturities as Term Bonds.
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to (i) refund a portion of the District’s outstanding Series 2010 Unlimited Tax Bonds as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a debt service savings and (ii) pay the costs associated with the issuance of the Bonds.
<i>Authority for Issuance...</i>	The Bonds are the first series of refunding bonds issued out of an aggregate of \$38,488,500 which were authorized by the District’s voters on September 13, 2003 and May 15, 2004 for the purpose of refunding outstanding obligations of the District and are issued pursuant to the Texas Constitution and the general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended. After the issuance of the Bonds, the District will have \$38,143,500* of authorized but unissued refunding bonds remaining. The District’s voters also authorized the issuance of \$34,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system. The District currently has \$20,000,000 of such bond authorization remaining. Additionally, the District is authorized to issue up to \$3,988,500 principal amount of unlimited tax bonds for recreational facilities. See “THE BONDS – Issuance of Additional Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against taxable property within the District. The Bonds are obligations of the District and are not obligations of Travis County, Lake Travis Independent School District, the State of Texas or any entity other than the District. See “THE BONDS – Source of Payment.”
<i>Municipal Bond Rating</i>	An application for a rating on the Bonds has been made to Moody’s Investors Service Inc. (“Moody’s”). The District’s outstanding debt is rated “Baa3” by Moody’s. See “MISCELLANEOUS – Rating.”
<i>Municipal Bond Insurance</i>	An application has been made to various municipal bond insurance companies for qualification of the Bonds for municipal bond insurance.
<i>Qualified Tax-Exempt Obligations...</i>	The District expects to designate the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Purchase of Tax-Exempt Obligations by Financial Institutions.”
<i>Bond Counsel...</i>	Freeman & Corbett, Austin, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Special Tax Counsel...</i>	Bracewell LLP, Austin, Texas.
<i>Underwriter’s Counsel...</i>	Andrews Kurth Kenyon LLP, Austin, Texas.

## RISK FACTORS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “RISK FACTORS.”

\* Preliminary, subject to change.

**SELECTED FINANCIAL INFORMATION (UNAUDITED)**

2013 Certified Taxable Assessed Valuation .....	\$ 61,736,884 <sup>(a)</sup>
2014 Certified Taxable Assessed Valuation .....	\$ 84,565,049 <sup>(a)</sup>
2015 Certified Taxable Assessed Valuation .....	\$ 110,808,168 <sup>(a)</sup>
2016 Certified Taxable Assessed Valuation .....	\$ 135,955,662 <sup>(a)</sup>
Gross Direct Debt Outstanding .....	\$ 14,370,000 <sup>(b)</sup>
Estimated Overlapping Debt.....	\$ 4,133,569 <sup>(c)</sup>
Gross Direct Debt and Estimated Overlapping Debt .....	\$ 18,503,569
Ratios of Gross Direct Debt to:	
2016 Certified Taxable Assessed Valuation.....	10.57%
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:	
2016 Certified Taxable Assessed Valuation.....	13.61%
Debt Service Fund Balance as of August 18, 2016.....	\$ 802,688
General Operating Fund Balance as of August 18, 2016.....	\$ 919,745
District's 2016 Tax Rate.....	\$ 0.9000
Travis County 2016 Tax Rate.....	0.3838
Travis County ESD No. 8 2016 Tax Rate.....	0.0998
Travis County Healthcare District 2016 Tax Rate .....	0.1178
Lake Travis Independent School District 2016 Tax Rate .....	1.4075
2016 Total Overlapping Tax Rate.....	\$ 2.9089
Average Annual Debt Service Requirement (2017-2044) .....	\$ 804,745 <sup>(d)</sup>
Maximum Annual Debt Service Requirement (2035).....	\$ 1,004,750 <sup>(d)</sup>
Tax Rates Required to Pay Average Annual Debt Service (2017-2044) at a 97.5% Collection Rate Based upon 2016 Certified Taxable Assessed Valuation.....	\$ 0.6071
Tax Rates Required to Pay Maximum Annual Debt Service (2035) at a 97.5% Collection Rate Based upon 2016 Certified Taxable Assessed Valuation.....	\$ 0.7580
Status of Development within the District as of August 1, 2016:	
Total Completed Homes .....	368
Total Occupied Homes.....	362
Homes Under Construction.....	14
Vacant Developed Lots.....	34
Lots Under Development .....	0
Undeveloped Acreage (developable) .....	171
Estimated Population .....	1,267 <sup>(e)</sup>

- (a) As certified by the Travis Central Appraisal District (the "Appraisal District").
- (b) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change. See "DEBT SERVICE REQUIREMENTS."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT – Estimated Overlapping Debt."
- (d) Preliminary, subject to change.
- (e) Based upon 3.5 persons per occupied single-family residence.

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## OFFICIAL STATEMENT

**\$2,900,000\***

### **CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

*(A political subdivision of the State of Texas located within Travis County)*

### **UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Cypress Ranch Water Control and Improvement District No. 1 (the "District") of its \$2,900,000\* Unlimited Tax Refunding Bonds, Series 2016 (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board") and elections held within the District.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, Cypress Ranch, Ltd. (the "Developer") and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Freeman & Corbett, Bond Counsel, 8500 Bluffstone Cove, Suite B-104, Austin, Texas 78759.

## RISK FACTORS

**GENERAL . . .** The Bonds are obligations solely of the District and are not obligations of Travis County, Lake Travis Independent School District, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS – Source of Payment." 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 taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

**FACTORS AFFECTING TAXABLE VALUES AND TAX PAYMENTS . . .** 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 single family 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 prosperity and demographic characteristics of the urban center 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 mortgage and development funding have a direct impact on the construction activity, particularly short term interest rates at which developers and homebuilders are able to obtain financing for development and construction costs. Lenders have been selective in recent years in making real estate loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District. 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, although located approximately 14.5 miles west of the central downtown business district of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

*Competition:* The demand for and construction of single-family homes in the District, which is 14.5 miles from downtown Austin, could be affected by competition from other residential developments including other residential developments located in other utility districts in the vicinity of 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 new homes proposed to be sold within the District.

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

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\* Preliminary, subject to change.



**MAXIMUM IMPACT ON DISTRICT TAX RATES . . .** Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2016 Certified Taxable Assessed Valuation is \$135,955,662. After issuance of the Bonds, the estimated maximum debt service requirement will be \$1,004,750 (2035), and the average annual debt service requirement will be \$804,745 (2017-2044, inclusive). Assuming no increase or decrease from the 2016 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.7580 and \$1.0016 per \$100 appraised valuation at a ninety-seven and a half percent (97.5%) collection rate would be necessary to pay the maximum debt service requirement and the average annual debt service requirement, respectively.

While the District anticipates future increases in taxable values, it makes no representations that over the term of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by property owners.

**DEPENDENCE ON MAJOR TAXPAYERS AND THE DEVELOPER . . .** The principal taxpayers represent \$9,110,602 or 6.70% of the District's 2016 Certified Taxable Assessed Valuation of \$135,955,662. The Developer represents \$659,029 or 0.48% of such value. If the Developer were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

The Developer has informed the Board that its current plan is to continue marketing the remaining developed lots in the District to home builders. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See "THE DEVELOPER."

**UNDEVELOPED ACREAGE . . .** There are approximately 171 developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities. The District makes no representation as to when or if development of this acreage will occur. See "THE DISTRICT – Status of Development."

**DEVELOPMENT AND HOME CONSTRUCTION IN THE DISTRICT . . .** As of August 1, 2016, development of Phase 1, Sections 1, 2, 3A, 3B and 4A and Phase 2, Sections 1, 2 and 3 (covering approximately 130 acres in the District) have been developed of approximately 301 developable acres. Failure of the Developer and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and other tax supported debt of the District. Future increases in value will result primarily from the construction of homes by builders. See "Maximum Impact on District Tax Rates" above.

**TAX COLLECTIONS LIMITATIONS AND FORECLOSURE REMEDIES . . .** The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt" and "– Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

**REGISTERED OWNERS' REMEDIES . . .** Remedies available to Registered Owners of Bonds in the event of a default by the District in one or more of its obligations under the Bond Resolution are limited. Although state law and the Bond Resolution provide that the Registered Owners may obtain a writ of mandamus requiring performance of such obligations, such remedy must be exercised upon each default and may prove time-consuming, costly and difficult to enforce. The Bond Resolution does not provide for acceleration of maturity of the Bonds, appointment of a trustee to protect the interests of the Registered Owners or any other

additional remedy in the event of a default by the District and, consequently, the remedy of mandamus may have to be relied upon from year-to-year. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies. The Bonds are not secured by an interest in the improvements financed with Bond proceeds or any other property of the District. No judgment against the District is enforceable by execution of a levy against the District's public purpose property. Further, the Registered Owners themselves cannot 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 rights of the Registered Owners and the enforceability of the Bonds may also be delayed, reduced or otherwise affected by proceedings under the Federal Bankruptcy Code or other laws affecting the enforcement of creditors' rights generally or by a State of Texas statute reasonably required to attain an important public purpose. See "Bankruptcy Limitation to Registered Owners' Rights" below.

**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. Texas law requires a water control and improvement district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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 Registered Owners 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.

A district may not be forced into bankruptcy involuntarily.

**FUTURE DEBT . . .** The District has the right to issue obligations other than the Bonds, including bonds, tax anticipation notes, bond anticipation notes, and refunding bonds and notes and to borrow for any valid corporate purpose. After issuance of the Bonds, the District will continue to owe the Developer approximately \$8,209,000 which will be financed with future bond issues. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is also authorized to issue bonds to refund or redeem its outstanding debt. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of certain types of additional bonds and obligations are subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS – Issuance of Additional Debt."

The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of certain types of additional bonds and obligations are 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."

**ENVIRONMENTAL REGULATIONS . . .** 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:

- Requiring permits for construction and operation of water supply wells and wastewater treatment facilities;
- Restricting the manner in which wastes are released into the air, water, or soils;
- Restricting or regulating the use of wetlands or other property;
- Requiring remedial action to prevent or mitigate pollution; and
- 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 control and improvement district or other type of district (including the 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, waste water 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 districts. 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 Texas Commission on Environmental Quality ("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, Travis, 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 be 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.

**Discharge Issues.** Discharge regulations that the District may be required to comply with involve: (1) waste water discharges from treatment facilities, (2) storm water discharges and (3) wetlands dredge and fill activities. Each of these is addressed below:

Operations of Districts' 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 in 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 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. Total maximum daily loads ("TMDLs") rules can have a significant impact on Districts' ability to obtain TPDES permits and maintain those permits. Districts may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

Operations of conservation and reclamation districts, including the District, are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act and regulations implementing the 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 recently proposed two general permits for stormwater discharges associated with construction activities and municipal separate stormsewer systems. Districts may also be required to develop and implement stormwater pollution prevention plans and stormwater management plans. Districts could incur substantial costs to develop and implement such plans and in connection with the installation or performance of 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 CWA 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.

**MARKETABILITY OF THE BONDS . . .** The District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of 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 Resolution on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See "TAX MATTERS – Tax Exemption."

## PLAN OF FINANCING

**REFUNDED BONDS** . . . Proceeds of the Bonds will be used to advance refund a portion of the District's outstanding Series 2010 Unlimited Tax Bonds as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") to achieve a debt service savings and pay the costs associated with the issuance of the Bonds. The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds and direct obligations of the United States of America to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, NA, Austin, Texas (the "Escrow Agent"). The Bond Resolution provides that from the proceeds of the sale of the Bonds received from the Underwriter the District will deposit with the Escrow Agent cash and direct obligations of the United States ("Federal Securities") in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable. In connection with the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement. By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Resolution authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Grant Thornton, LLP, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement. The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

**SOURCES AND USES OF FUNDS** . . . The proceeds from the sale of the Bonds, along with other lawfully available funds of the District, if any, will be applied approximately as follows:

### SOURCES OF FUNDS:

Par Amount of Bonds	
Net Original Issue Premium (Discount)	
District Contribution	
Total Sources of Funds	=====

### USES OF FUNDS:

Escrow Deposit	
Costs of Issuance	
Underwriter's Discount	
Deposit to Debt Service Fund	
Total Uses of Funds	=====

## THE BONDS

**DESCRIPTION** . . . The Bonds will be dated October 1, 2016, with interest payable each August 15 and February 15, beginning February 15, 2017 (each an "Interest Payment Date"), and will mature on the dates and in the amounts shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000.

**BOOK-ENTRY-ONLY SYSTEM** . . . The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest 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 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 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).

Principal and interest 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 Agent, 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 securities 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 nor its nominee, Agent, or the, 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 Agent. Payments of principal and interest to Direct Participants will be the responsibility of DTC, and reimbursement 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 Agent. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered.

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

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 the District takes no responsibility for the accuracy thereof.

**SOURCE OF PAYMENT . . .** While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax,

without legal limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Travis County, Lake Travis Independent School District, or any entity other than the District.

**FUNDS . . .** In the Bond Resolution, the Debt Service Fund is created or affirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

Excess issuance costs including rounding amounts shall be deposited into the Debt Service Fund upon receipt of the proceeds from the sale of the Bonds. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund after completion of construction of the entire system (as herein defined) will be used as described in the Bond Resolution. See "THE SYSTEM" for a complete description of the use of Bond proceeds and the projects related thereto.

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem the Bonds maturing on or after August 15, 20\_\_\_, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 20\_\_\_, or any date thereafter, at a price of par value on the principal amounts called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in Book-Entry-Only form).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are the first series of refunding bonds issued out of an aggregate of \$38,488,500 which were authorized by the District's voters on September 13, 2003 and May 15, 2004 for the purpose of refunding outstanding obligations of the District and are issued pursuant to the Texas Constitution and the general laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended. After the issuance of the Bonds, the District will have \$38,143,500\* of authorized but unissued refunding bonds remaining. The District's voters also authorized the issuance of \$34,500,000 principal amount of unlimited tax bonds for the purpose of purchasing and constructing a water, wastewater and/or storm drainage system. The District currently has \$20,000,000 of such bond authorization remaining unissued. Additionally, the District is authorized to issue up to \$3,988,500 principal amount of unlimited tax bonds for recreational facilities

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.

**REGISTRATION AND TRANSFER . . .** So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

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\*Preliminary, subject to change.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

**LOST, STOLEN OR DESTROYED BONDS . . .** In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed bonds will be required to pay the District's costs to replace such bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

**ISSUANCE OF ADDITIONAL DEBT . . .** 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 \$34,500,000 principal amount of bonds for the purpose of constructing and/or acquiring utility facilities and could authorize additional amounts. The issuance of additional bonds to refund or redeem the District's bonds is also authorized. The District currently has \$20,000,000 of unlimited tax bonds for utility facilities authorized but unissued. Additionally, the District is authorized to issue up to \$3,988,500 principal amount of unlimited tax bonds for recreational facilities and \$38,488,500 principal amount of unlimited tax refunding bonds. After issuance of the Bonds, the District will have \$38,143,500\* in unlimited tax refunding bonds authorized but unissued.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

Within six months after issuance of the Bonds, the District does anticipate the issuance of approximately \$4,000,000 in unlimited tax bonds.

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. It is not anticipated at this time that bonds will be issued by the District for fire-fighting purposes. Issuance of bonds for firefighting purposes could dilute the investment security for the Bonds or any additional bonds issued by the District.

**CONSOLIDATION . . .** The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

**REMEDIES IN EVENT OF DEFAULT . . .** Other than a writ of mandamus, the Bond Resolution does not provide a specific remedy for a default. Although a Registered Owner could presumably obtain a judgment against the District for a default in the payment of principal or interest, such judgment could not be satisfied by execution against any property of the District. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Resolution. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. See "RISK FACTORS – Registered Owners' Remedies" and "– Bankruptcy Limitation to Registered Owners' Rights."

**LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . .** Pursuant to Section 49.186, Texas Water Code and Chapter 1201, Texas Government Code, the Bonds, whether rated or unrated, are (a) legal investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees and (b) legal investments for public funds of cities, counties, school districts and other political subdivisions or public agencies of the State. The Bonds are also eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Most political subdivisions in the State of Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose other, more stringent, requirements in order for the Bonds to be legal investments of such entity's funds or to be eligible to serve as collateral for their funds.

The District has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The District has made no investigation of any other laws, rules, regulations or investment criteria that might affect the legality or suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

**DEFEASANCE . . .** The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) of the Bonds or other obligations of the District payable from revenues or from ad valorem taxes or both, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable 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 governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to the investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

Upon such deposit as described above, such Bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

#### **BOND INSURANCE**

An application for bond insurance has been made. In the event the Bonds are qualified for municipal bond insurance, and the purchase of such insurance is desired, the cost will be paid by the District. Any fees to be paid to any rating agencies as a result of said insurance will be paid by the District. It will be the responsibility of the Underwriter to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Bonds.

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## THE DISTRICT

**GENERAL . . .** The District is a water control and improvement district created by an Order of the TCEQ dated March 18, 2003. The creation of the District was confirmed at an election held within the District on September 13, 2003. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 51 of the Texas Water Code, as amended.

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. The TCEQ exercises continuing supervisory jurisdiction over the District. See “THE BONDS-Issuance of Additional Debt.”

The TCEQ exercises continuing supervisory jurisdiction over the District.

**STATUS OF DEVELOPMENT . . .** As of August 1, 2016, water, wastewater, streets and drainage facilities have been completed to serve Phase 1, Sections 1, 2, 3A, 3B and 4A and Phase 2, Sections 1, 2 and 3 consisting of 416 single-family residential lots on approximately 130 acres and a total of 368 homes had been constructed (362 occupied) and 14 homes remained under construction. There are approximately 171 developable acres which have not yet been provided with water distribution, wastewater collection and storm drainage facilities and approximately 145 acres that are non-developable (recreation, drainage and greenbelts). Homes within the District range in size from 2,000 sf. to 4,200 sf. and in sales price from \$308,000 to in excess of \$490,000.

**HOMEBUILDERS . . .** The Developer has entered into lot sales contracts with Highland Homes and MileStone Community Builders. One additional builder, Wilshire Homes (formerly Plantation Homes), has fulfilled its obligation to purchase lots in the District and is currently completing build-out on their lots.

**FUTURE DEVELOPMENT . . .** The District is currently planned as a primarily single-family residential development. Approximately 171 developable acres of land in the District are not yet served with water distribution and supply, wastewater collection and treatment or storm drainage facilities. While the Developer anticipates future development of this acreage as business conditions warrant, there can be no assurances if and when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District (or to reimburse the Developer for its costs to accomplish such development). The Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$20,000,000, after issuance of the Bonds) will be sufficient to finance the construction of water, wastewater and storm drainage facilities to complete the water and wastewater system for full development of the District and to reimburse the Developer for funds previously advanced to complete such facilities. See “RISK FACTORS – Factors Affecting Taxable Values and Tax Payments” and “– Future Debt” and “THE SYSTEM.”

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## THE DEVELOPER

**GENERAL . . .** In general, the activities of a developer in a utility district, such as the District, include purchasing the land within the utility district; coordinating the design of the subdivision; coordinating the design of the utilities and streets to be constructed in the subdivision; coordinating the design of any community facilities to be built; defining a marketing program and building schedule; securing necessary governmental approvals and permits for development; arranging for the construction of the improvements within the subdivisions, including water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, cable television, and electric service; and selling improved lots and commercial reserves to homebuilders, other developers, or other third parties. The relative success or failure of a developer to perform such activities will have a profound effect on the security of the bonds issued by the District. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily the major taxpayer within the district during the development phase of the property.

**THE DEVELOPER . . .** *Aside from the preceding paragraph, the Developer has provided the remainder of the information set forth under this heading.*

The property in the District is being developed by Cypress Ranch, Ltd. (the "Developer"), which was created to acquire and develop the property in the District and fund development costs. See "THE DISTRICT – Status of Development."

The Developer is a Texas Limited Partnership.

**DEVELOPMENT FINANCING . . .** Acquisition and development of single-family residential property within the District has been provided by capital contributions of the Developer, financed under a revolving credit facility provided by Northern Trust through Castletop Capital Finance ("CCF"), a related party of the Developer, in the original principal amount of \$13,000,000, originally scheduled to mature on November 15, 2016. As of August 1, 2016, the Developer has fully repaid and retired this credit facility. Any future capital needs for the project are expected to be financed by Developer equity capital.

## MANAGEMENT OF THE DISTRICT

**BOARD OF DIRECTORS . . .** The District is governed by the Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected to staggered four-year terms and elections are held on the first Tuesday after the first Monday of November in even numbered years only. Five of the Board members reside within the District. The current members and officers of the Board along with their titles and terms are listed as follows:

<u>Name</u>	District <u>Board Title</u>	Term <u>Expires</u>
Gene Darling	President	November 2018
Ron den Hoed	Vice President	November 2018
Charlie Leal	Secretary	November 2018
Joanne Molinyawe	Assistant Secretary	November 2016
Antonio Salinas	Assistant Secretary	November 2016

**DISTRICT CONSULTANTS . . .** The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

**Tax Appraisal:** The Travis Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

**Tax Assessor/Collector:** The Travis County Tax Assessor/Collector (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

**Engineer:** The District's consulting engineer is Texas Engineering Solutions, LLC.

**Additional Engineer:** The District contracted with Jones-Hero & Associates, Inc. to prepare its bond application to the TCEQ.

**Bookkeeper:** The District has contracted with Montoya, Monzingo & Blakeslee, LLP for bookkeeping services.

**Auditor:** The District engaged Maxwell Locke & Ritter, LLP to audit the District's financial statements for 2015. The District engaged McCall Gibson Swedlund Barfoot PLLC to audit the District's financial statement for 2016. See "APPENDIX A" for a copy of the District's September 30, 2015 financial statements.

**General Counsel:** Tiemann, Shahady & Hamala, P.C. has been engaged to serve as general counsel for the District. The fees of general counsel are not contingent upon the sale and delivery of the Bonds.

*Bond Counsel:* The District has engaged Freeman & Corbett as Bond Counsel in connection with the issuance of the District’s debt obligations. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

*Financial Advisor:* Specialized Public Finance Inc. serves as the District’s Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

*Special Tax Counsel:* Bracewell LLP has been engaged to serve as special tax counsel for the offering of the Bonds. The fees of special tax counsel are contingent upon the sale and delivery of the Bonds.

*Underwriter’s Counsel:* Andrews Kurth Kenyon LLP has been engaged to serve as Underwriter’s Counsel for the offering of the Bonds.

## THE SYSTEM

**REGULATION . . .** Construction and operation of the District’s water, sanitary sewer and storm drainage system (the “System”) as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District and Travis County. The TCEQ also exercises regulatory jurisdiction over portions of the System.

According to the District’s Engineer, (i) the System facilities have been designed in accordance with accepted engineering practices and the requirements of all such governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities and (ii) the design of all such facilities has been approved by all required governmental agencies and inspected by the TCEQ.

The District is currently providing water to 1 commercial customer outside the District’s service area and is committed to providing water to 100 LUE’s outside the District’s service area pursuant to a Memorandum of Agreement Regarding West Cypress Hills Subdivision executed June 19, 2007 (the “Memorandum Agreement”). The Memorandum Agreement contemplates that the District will provide water to the Sola Vista Subdivision (the “Subdivision”) until such time that that Driftwood can receive water from a system operated by the West Travis County Public Utility Agency (“WTCPUA”) (such system being previously operated by the Lower Colorado River Authority). In the event Driftwood receives water from the WTCPUA in the future, it will utilize the District’s water distribution lines as a pass-through to the Subdivision and pay the District a fee for its portion of the operation and maintenance of the water distribution lines. Three Sections of the Subdivision have been platted and constructed; however, no representation can be made regarding when, or if, water service will be provided from the WTCPUA.

**WATER SUPPLY . . .** The District’s source of water is groundwater from thirteen wells. The thirteen wells have combined capacity of 277 gallons per minute (GPM).

The following table summarizes the existing water supply facilities that serve the District along with the equivalent single-family connection (“ESFC”) capacity of each component:

Facility	Minimum Requirements	Total Capacity (ESFCs)
Water Wells	0.6 GPM/ESFC	277 gpm (461 ESFCs)
Pressure Tank	20 gal/ESFC or 30,000 gal max.	8,000 gal (400 ESFCs)
Ground Storage	200 gal/ESFC	347,000 gal (1,735 ESFCs)
Booster Pump	2 gpm/ESFC or 1,000 GPM max.	1,350 gpm (675 ESFCs)

Pursuant to an August 21, 2007 contract with the Lower Colorado River Authority, the District can purchase 142,071,036 gallons of raw water per year. The delivery of this LCRA water is contingent upon the construction of a transmission line.

The District’s existing water supply capacity will serve 400 ESFCs and the Engineer has represented that additional water supply capacity will be required for the District to complete planned build-out.

**WASTEWATER TREATMENT . . .** Wastewater treatment for the District is provided by the District’s 0.10 MGD wastewater treatment plant. TCEQ Permit No. 14368-001 authorizes the plant to treat interim flows of 0.066 million gallons per day (“MGD”), 0.10 MGD, and 0.135 MGD and a final flow of 0.20 MGD, with disposal via drip irrigation. The District utilizes a 67,107 gallon per day (GPD) drip irrigation system for effluent disposal capacity. Based on a design factor of 215 GPD per ESFC, a 0.10 MGD plant would have capacity to serve 312 ESFCs through the existing drip irrigation system and an additional 7 acres of area that can be irrigated through an existing Chapter 210 beneficial reuse permit which is approximately 0.018 MGD of flow through the existing 210 beneficial reuse system for a total capacity to serve 397 ESFs. The Engineer has represented that additional wastewater treatment capacity will be required for the District to complete planned build-out.

**STORM WATER DRAINAGE . . .** Storm drainage within the District is provided by an internal collection network which outfalls into Lick Creek, which eventually flows into Lake Travis.

**100-YEAR FLOOD PLAIN . . .** The Flood Insurance Rate Map associated with the District indicates that a portion of the land in the District is located within the 100-year flood plain. The District has no plans to modify the current flood plain or to develop any area within the flood plain, but does intend to dedicate such property as a drainage easement to be utilized as part of the drainage system.

**DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 9/30	Outstanding Debt <sup>(a)</sup>			The Bonds <sup>(b)</sup>			Total Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
	2017	\$ 185,000	\$ 438,208	\$ 623,208	\$ 35,000	\$ 85,403	
2018	340,000	432,645	772,645	30,000	88,675	118,675	891,320
2019	265,000	422,460	687,460	120,000	88,075	208,075	895,535
2020	280,000	414,990	694,990	125,000	84,475	209,475	904,465
2021	290,000	406,850	696,850	130,000	80,725	210,725	907,575
2022	310,000	398,150	708,150	140,000	76,825	216,825	924,975
2023	325,000	387,055	712,055	140,000	72,625	212,625	924,680
2024	340,000	375,450	715,450	145,000	68,425	213,425	928,875
2025	355,000	363,130	718,130	155,000	64,075	219,075	937,205
2026	375,000	350,120	725,120	155,000	59,425	214,425	939,545
2027	400,000	336,200	736,200	165,000	54,775	219,775	955,975
2028	420,000	320,200	740,200	175,000	49,825	224,825	965,025
2029	440,000	303,400	743,400	175,000	44,575	219,575	962,975
2030	465,000	285,800	750,800	180,000	39,325	219,325	970,125
2031	490,000	267,200	757,200	195,000	33,475	228,475	985,675
2032	515,000	247,600	762,600	200,000	27,138	227,138	989,738
2033	540,000	227,000	767,000	205,000	20,638	225,638	992,638
2034	570,000	205,400	775,400	210,000	13,975	223,975	999,375
2035	595,000	182,600	777,600	220,000	7,150	227,150	1,004,750
2036	630,000	158,800	788,800	-	-	-	788,800
2037	665,000	133,600	798,600	-	-	-	798,600
2038	335,000	107,000	442,000	-	-	-	442,000
2039	350,000	93,600	443,600	-	-	-	443,600
2040	365,000	79,600	444,600	-	-	-	444,600
2041	380,000	65,000	445,000	-	-	-	445,000
2042	395,000	49,800	444,800	-	-	-	444,800
2043	415,000	34,000	449,000	-	-	-	449,000
2044	435,000	17,400	452,400	-	-	-	452,400
	<u>\$ 11,470,000</u>	<u>\$ 7,103,258</u>	<u>\$ 18,573,258</u>	<u>\$ 2,900,000</u>	<u>\$ 1,059,603</u>	<u>\$ 3,959,603</u>	<u>\$ 22,532,860</u>

(a) Excludes the Refunded Bonds. Preliminary, subject to change.

(b) Interest calculated at a net interest cost of 2.93% for purposes of illustration. Preliminary, subject to change.

Average Annual Debt Service Requirements (2017-2044).....\$ 804,745  
Maximum Annual Debt Service Requirement (2035).....\$1,004,750

**ESTIMATED OVERLAPPING DEBT** . . . The following table indicates the outstanding debt payable from ad valorem taxes of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

<u>Taxing Jurisdiction</u>	<u>Outstanding Bonds</u>	<u>As of</u>	<u>Overlapping</u>	
			<u>Percent</u>	<u>Amount</u>
Travis County .....	\$ 717,256,497	7/31/16	0.08%	\$ 573,805
Travis County Healthcare District .....	11,355,000	7/31/16	0.08%	9,084
Travis County ESD No. 8 .....	0	7/31/16	N/A	0
Lake Travis Independent School District.....	246,575,000	7/31/16	1.44%	3,550,680
Total Estimated Overlapping Debt .....				\$ 4,133,569
The District's Total Direct Debt <sup>(a)</sup> .....				<u>14,370,000</u>
Total Direct and Estimated Overlapping Debt.....				\$18,503,569
Direct and Estimated Overlapping Debt as a Percentage of:				
2016 Certified Taxable Assessed Valuation .....				13.61%

(a) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

**OVERLAPPING TAXES** . . . Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt"), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied for the 2016 tax year by all overlapping taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>2016 Tax Rate Per \$100 Assessed Valuation</u>	
Travis County .....	\$	0.3838
Travis County ESD No. 8 .....		0.0998
Travis County Healthcare District .....		0.1178
Lake Travis Independent School District.....		<u>1.4075</u>
Total Overlapping Tax Rate.....	\$	2.0089
The District .....		<u>0.9000</u>
Total Tax Rate .....	\$	2.9089

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## TAX DATA

**DEBT SERVICE TAX . . .** The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District's Financial Advisor has recommended that a debt service tax rate of not less than \$0.7300 per \$100 of appraised valuation be levied in the initial year after the issuance of the Bonds, which is expected to be tax year 2017. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments," "– Historical Tax Rate Distribution" and "– Tax Roll Information" below, and "TAXING PROCEDURES."

**MAINTENANCE TAX . . .** The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate sufficient to secure funds for operation and maintenance purposes. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

**TAX EXEMPTIONS . . .** The District has not adopted any tax exemptions for property located within the District.

**TAX COLLECTIONS . . .** The District has contracted with Travis County to collect taxes.

### HISTORICAL TAX RATE

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Debt Service	\$ 0.4500	\$ 0.5500	\$ 0.6500	\$ 0.6750	\$ 0.7000
Maintenance	0.4500	0.3500	0.2500	0.2250	0.2000
Total	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>	<u>\$ 0.9000</u>

**HISTORICAL TAX COLLECTIONS . . .** The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's tax assessor/collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Tax <u>Year</u>	Net Certified Taxable		Total <sup>(b)</sup> <u>Tax Levy</u>	Total Collections		<u>As of</u>
	<u>Assessed Valuation<sup>(a)</sup></u>	<u>Tax Rate</u>		<u>Amount</u>	<u>Percent</u>	
2011	\$ 38,719,415	\$ 0.9000	\$ 360,406	\$ 359,939	99.87%	09/30/12
2012	46,598,100	0.9000	419,383	416,867	99.40%	09/30/13
2013	61,736,884	0.9000	555,632	554,521	99.80%	09/30/14
2014	84,565,049	0.9000	761,085	739,927	97.22%	09/30/15
2015	110,808,168	0.9000	997,274	991,590	99.43%	07/31/16
2016	135,955,662	0.9000	N/A	N/A	N/A	N/A

(a) Net valuation represents final gross appraised value as certified by the Appraisal District. No exemptions are currently granted. See "Tax Roll Information" below.

(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.

**TAX ROLL INFORMATION . . .** The District's appraised value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES – Valuation of Property for Taxation"). The following represents the composition of property comprising the 2015 and 2016 Certified Taxable Appraised Valuations.

	2015 Certified Taxable <u>Appraised Valuation<sup>(a)</sup></u>	2016 Certified Taxable <u>Appraised Valuation<sup>(a)</sup></u>
Land and Improvements	\$ 112,303,908	\$ 135,955,662
Personal Property	<u>147,677</u>	<u>0</u>
Total Appraised Valuation	\$ 112,156,231	\$ 135,955,662
Exemptions	<u>1,348,063</u>	<u>0</u>
Total Taxable Appraised Valuation	\$ 110,808,168	\$ 135,955,662

(a) As certified by the Travis Central Appraisal District (the "Appraisal District").

**PRINCIPAL TAXPAYERS . . .** The following table represents the principal taxpayers, the taxable assessed value of such property, and such property’s assessed value as a percentage of the 2016 Certified Taxable Assessed Valuation. The 2016 Certified Taxable Assessed Valuation is subject to protest, which could result in changes to the principal taxpayers lists.

Taxpayer	Taxable Assessed Value	% of 2016 Certified Taxable Assessed Valuation
Milestone Community Builders	\$ 2,355,404	1.73%
Highland Homes-Austin Ltd.	1,560,550	1.15%
Highland Homes-Austin Ltd.	1,024,132	0.75%
Millstone Community	970,866	0.71%
Cypress Ranch Ltd.	659,029	0.48%
Highland Homes-Austin Ltd.	550,643	0.41%
Spears, Brian & Susannah	539,533	0.40%
Guarino, Roy Sr. & Linda	484,713	0.36%
Ryan, Marcus & Stephanie	484,713	0.36%
Farias, Richard & Bertha	481,019	0.35%
	<u>\$ 9,110,602</u>	<u>6.70%</u>

**TAX ADEQUACY FOR DEBT SERVICE . . .** The tax rate calculations set forth below are presented to indicate the tax rates per \$100 appraised valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District’s tax base occurred beyond the 2016 Certified Taxable Assessed Valuation of \$135,955,662. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety percent (97.5%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “DEBT SERVICE REQUIREMENTS.”

Average Annual Debt Service Requirement (2017-2044) .....	\$ 804,745 (a)
\$0.6071 Tax Rate on 2016 Certified Taxable Assessed Valuation at 97.5% Collection .....	\$ 804,752
Maximum Annual Debt Service Requirement (2035).....	\$ 1,004,750 (a)
\$0.7580 Tax Rate on 2016 Certified Taxable Assessed Valuation at 97.5% Collection.....	\$ 1,004,780

(a) Preliminary, subject to change.

## TAXING PROCEDURES

**AUTHORITY TO LEVY TAXES . . .** The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS – Future Debt”) and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of Payment.” Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system. See “TAX DATA – Debt Service Tax” and “– Maintenance Tax.”

**PROPERTY TAX CODE AND COUNTY-WIDE APPRAISAL DISTRICT . . .** The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here.

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

**PROPERTY SUBJECT TO TAXATION BY THE DISTRICT . . .** Except for certain exemptions provided by Texas 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. Principal categories of exempt property include, but are not limited to: 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; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$3,000 and \$12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas 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 adoption of a homestead exemption may be considered each year, but must be adopted by April 30.

Exemptions for Freeport Goods and Goods-in-Transit: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within 175 days. Freeport goods are exempted from taxation by the District.

A “Goods-in-Transit Exemption” may also apply to certain tangible personal property that is acquired in or imported into Texas for assembling, storing, manufacturing or fabrication purposes which is destined to be forwarded to another location in Texas not later than 175 days after acquisition or importation, so long as the location where said goods are detained is not directly or indirectly owned by the owner of the goods. The District has not taken action to allow taxation of goods-in-transit, and accordingly, the exemption is available within the District.

A taxpayer may not claim both a Freeport Goods Exemption and a Goods-in-Transit Exemption on the same property.

**TAX ABATEMENT . . .** Travis County may designate all or part of the area within the District as a reinvestment zone. Thereafter, Travis County, the Lake Travis Independent School District and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised 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 the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

**VALUATION OF PROPERTY FOR TAXATION . . .** Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally 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.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District 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 Appraisal District chooses formally to include such values on its appraisal roll.



**DISTRICT AND TAXPAYER REMEDIES . . .** Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District 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 value, 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 such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 15 of the year following the year in which imposed. 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 for collection costs of an amount established by the District and a delinquent tax attorney. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

**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 as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units (see "TAX DATA – Estimated Overlapping Taxes"). 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 or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser's deed issued at the foreclosure sale is filed in the county records. See "RISK FACTORS-General-Tax Collection Limitations and Foreclosure Remedies."

**THE EFFECT OF FIRREA ON TAX COLLECTIONS OF THE DISTRICT . . .** The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") 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, interest, 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.

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 or may affect the valuation of such property.

## LEGAL MATTERS

**LEGAL OPINIONS . . .** The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal 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 Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Freeman & Corbett, Austin, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bracewell LLP, Special Tax Counsel, will also render an opinion to the effect that under existing law (i) interest on the Bonds is excludable from gross income of the holders for federal tax purposes; and (ii) the Bonds are not “private activity bonds” under the Internal Revenue Code of 1986, as amended (the “Code”) and, as such, interest on the Bonds will not be subject to the alternative minimum tax on individuals and corporations, except as described in the “TAX MATTERS – Tax Exemption” section below in the discussion regarding the adjusted current earnings adjustments for corporations. Bond Counsel will not be responsible in any manner for matters addressed in the opinion of Special Tax Counsel and, likewise, Special Tax Counsel will not be responsible in any manner for matters addressed in the opinion of Bond Counsel. Moreover, Bond Counsel and Special Tax Counsel have no joint responsibility with respect to the Bonds or the proceedings relating to the Bonds. Bond Counsel will be solely responsible its opinion and Special Tax Counsel will be solely responsible for its opinion. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth Kenyon LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel and Special Tax Counsel have been engaged by, and only represent, the District.

The legal fees to be paid to Bond Counsel and Special Tax 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.

**LEGAL REVIEW . . .** In its capacity as Bond Counsel, Freeman & Corbett, has reviewed the information appearing in this Official Statement under the captioned sections “SALE AND DISTRIBUTION OF BONDS – Securities Laws,” “PLAN OF FINANCING – Refunded Bonds,” “THE BONDS,” “THE DISTRICT – General,” “MANAGEMENT OF THE DISTRICT – Bond Counsel,” “TAXING PROCEDURES,” and “LEGAL MATTERS” solely to determine whether such information fairly summarizes the law and documents referred to therein and Special Tax Counsel has reviewed the information appearing under “LEGAL MATTERS” (insofar as such section relates to the legal opinion of special tax counsel) and “TAX MATTERS” herein solely to determine whether such information fairly summarizes the procedures and documents referred to therein and is in accordance with applicable state law with regard to the sale of the Bonds. Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein.

**NO-LITIGATION CERTIFICATE . . .** The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or non-encumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## TAX MATTERS

**TAX EXEMPTION** . . . In the opinion of Bracewell LLP, Austin, Texas, Special Tax Counsel, under existing law, (i) interest on the Bonds will be excludable from gross income for federal income tax purposes and (ii) the Bonds are not “private activity bonds” under the Code and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The Issuer has covenanted in the Resolution that it will comply with these requirements.

Special Tax Counsel’s opinion will assume continuing compliance with the covenants of the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the Issuer, the Issuer’s Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Issuer’s Financial Advisor and the Underwriters, respectively, which Special Tax Counsel has not independently verified. If the Issuer should fail to comply with the covenants in the Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs. Special Tax Counsel’s opinion will also rely on the opinions of the Attorney General of the State of Texas and Bond Counsel as to the validity of the Bonds.

The Code also imposes a 20% alternative minimum tax on the “alternative minimum taxable income” of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation’s regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its “adjusted current earnings” exceeds its other “alternative minimum taxable income.” Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted current earnings,” ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

Except as stated above, Special Tax Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Special Tax Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Special Tax Counsel’s knowledge of facts as of the date thereof. Special Tax Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Special Tax Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Special Tax Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Special Tax Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

**PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS** . . . Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution’s investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as “qualified tax-exempt obligations.”

The Bonds will be designated as “qualified tax-exempt obligations” based, in part, on the District’s representation that the amount of the Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than “qualified 501(c)(3) bonds” or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the District during 2016, is not expected to exceed \$10,000,000. Further, the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in “qualified tax-exempt obligations” (including the Bonds) during 2016.

Notwithstanding the designation of the Bonds as “qualified tax-exempt obligations” under this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

## ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

**COLLATERAL TAX CONSEQUENCES . . .** Prospective purchasers of the Bonds should be aware that the ownership of tax exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . .** The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT BONDS . . .** The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as 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 period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – Tax Exemption” and “ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – Collateral Tax Consequences” and “- Tax Legislative Changes” generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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.

The foregoing discussion assumes that (a) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (b) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm’s-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the Issuer nor Special Tax Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

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 Bond.

The federal income tax consequences of the purchase, ownership, and 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 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.

**TAX LEGISLATIVE CHANGES . . .** Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## **PREPARATION OF OFFICIAL STATEMENT**

**SOURCES AND COMPILATION OF INFORMATION . . .** The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein 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 for further information.

**FINANCIAL ADVISOR . . .** Specialized Public Finance Inc. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement. In its capacity as Financial Advisor, Specialized Public Finance Inc. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

**CONSULTANTS . . .** In approving this Official Statement the District has relied upon the following consultants.

*Tax Assessor/Collector:* The information contained in this Official Statement relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by the Travis County Tax Assessor/Collector's office and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

*Engineer:* The information contained in this Official Statement relating to engineering 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 Texas Engineering Solutions LLC and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Developer:* The information contained in this Official Statement relating to development and the status of development within the District generally and, in particular, the information in the sections captioned "THE DEVELOPER" (except for the subcaption "Role of a Developer") has been provided by the Developer and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

*Auditor:* The information contained in this Official Statement relating to the financial information of the District generally and, in particular, the information in APPENDIX A has been provided by the Auditor and has been included herein in reliance upon their authority and knowledge of such party concerning the matters described therein.

## **CONTINUING DISCLOSURE OF INFORMATION**

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

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings "DEBT SERVICE REQUIREMENTS" (excluding the subheadings "-- Estimated Overlapping Debt" and "-- Overlapping Taxes") and "APPENDIX A -- Audited Financial Statement

of the District.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2016. The District will provide the updated information in an electronic format, all as prescribed by 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 updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, to such other account 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 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

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

The District will also provide to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determination with respect to the tax-exempt status of the bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar office 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 Commission).

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 . . .** The District has agreed to provide the information only to the MSRB, accompanied by identifying information and in an electronic format, as prescribed by the MSRB. The MSRB has prescribed that such information must be filed with the MSRB pursuant to its Electronic Municipal Market Access (“EMMA”) System. The MSRB intends to make the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

**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 holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt the 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 or the business of the Developer, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but

only to the extent that its right to do so would not prevent the Underwriters from lawfully purchasing the Bonds in the initial offering. 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 reasons 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.

#### **MISCELLANEOUS**

**RATING . . .** An application for a rating on the Bonds has been made to Moody's Investors Service Inc. ("Moody's"). The outstanding debt of the District is rated "Baa3" by Moody's. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization 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 they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of the 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.

All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This OFFICIAL STATEMENT was approved by the Board of Directors of Cypress Ranch Water Control and Improvement District No. 1 as of the date shown on the first page hereof.

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President, Board of Directors  
Cypress Ranch WC&ID No. 1

ATTEST:

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Secretary, Board of Directors  
Cypress Ranch WC&ID No. 1

**SCHEDULE I\***

**SCHEDULE OF REFUNDED BONDS**

Unlimited Tax Bonds, Series 2010			
Amount	Maturity	Coupon	
\$ 90,000	8/15/2019	4.400%	
95,000	8/15/2020	4.500%	
100,000	8/15/2021	4.600%	
110,000	8/15/2022	4.700%	
115,000	8/15/2023	4.800%	
120,000	8/15/2024	4.900%	
130,000	8/15/2025	5.000%	
135,000	8/15/2026 <sup>(a)</sup>	5.200%	
145,000	8/15/2027 <sup>(a)</sup>	5.200%	
155,000	8/15/2028 <sup>(a)</sup>	5.200%	
160,000	8/15/2029 <sup>(a)</sup>	5.200%	
170,000	8/15/2030 <sup>(a)</sup>	5.200%	
185,000	8/15/2031 <sup>(b)</sup>	5.350%	
195,000	8/15/2032 <sup>(b)</sup>	5.350%	
205,000	8/15/2033 <sup>(b)</sup>	5.350%	
215,000	8/15/2034 <sup>(b)</sup>	5.350%	
230,000	8/15/2035 <sup>(b)</sup>	5.350%	
<u>\$ 2,555,000</u>			

Redemption Date: 8/15/2018  
Redemption Price: 100%

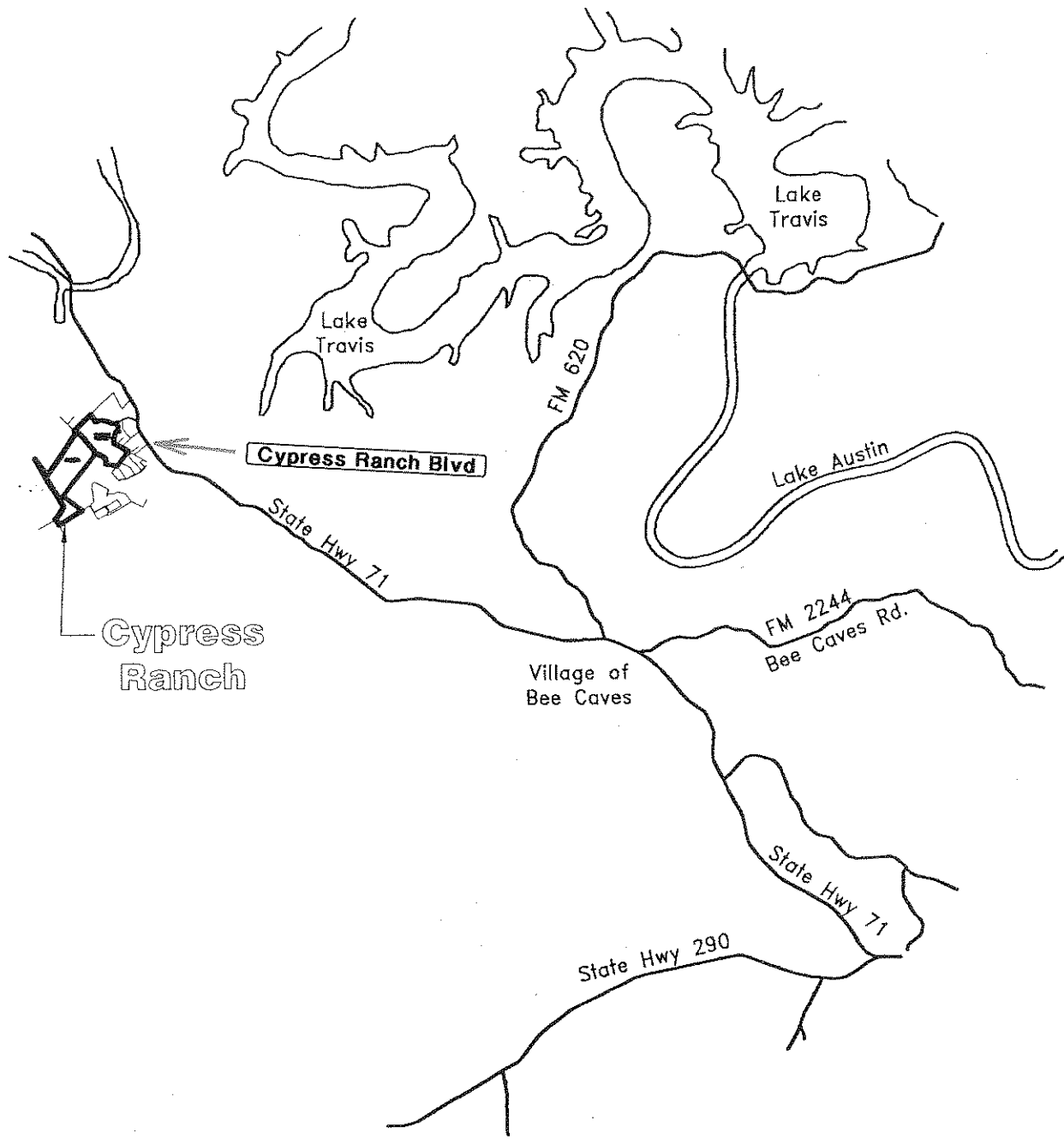
\*Preliminary, subject to change.

(a) Term Bonds maturing on August 15, 2030.

(b) Term Bonds maturing on August 15, 2035.



## LOCATION MAP



**CYPRESS RANCH  
W.C.I.D**

**VICINITY MAP**

**THE MOORE GROUP, INC.**



ENGINEERING, SURVEYING & PLANNING

1000 Cuernavaca Dr.  
Austin, Texas 78733

Ph. (512) 442-0377  
Fax (512) 442-7807

Drawn: DJP  
Checked: ECM  
Approved: ECM  
Date: 06/17/02

SHEET **1** NO.  
OF **1** SHEETS

**PHOTOGRAPHS OF THE DISTRICT**

*\$96 sq. ft.*

**IN THE LAKE TRAVIS  
SCHOOL DISTRICT**



*West Cypress Hills Immediate Move-In from the \$230's.*

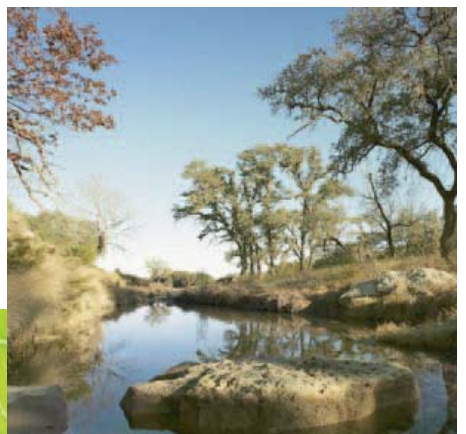
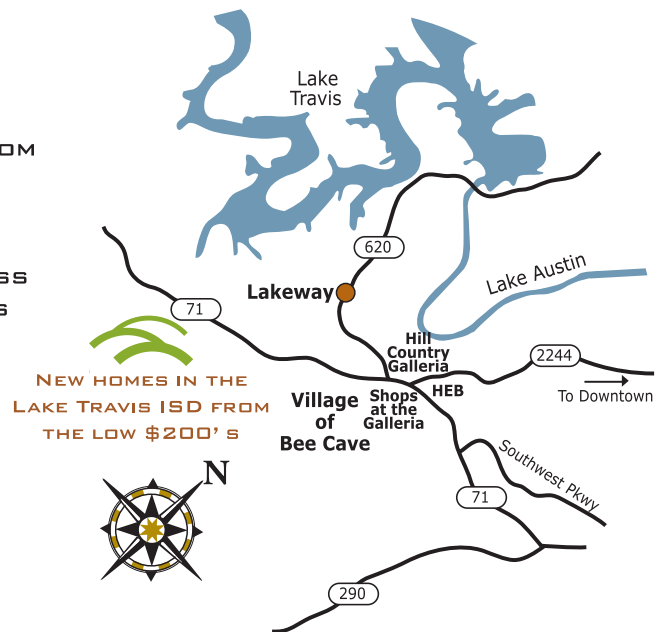
ACCORDING TO MLS, THE AVERAGE PRICE PER SQUARE FOOT IN THE LTISD IS \$174.67.

BRAND NEW HOMES IN WEST CYPRESS HILLS READY FOR IMMEDIATE MOVE-IN ARE PRICED FROM \$96 A SQUARE FOOT, \$78 LESS PER SQUARE FOOT THAN A RESALE HOME.

OTHER OUTSTANDING VALUES IN WEST CYPRESS HILLS INCLUDE HOMES LOADED WITH FEATURES ON 90-FOOT WIDE HOME SITES RIGHT AROUND \$120 A SQUARE FOOT... STILL ALMOST \$55 LESS PER SQUARE FOOT THAN THE AVERAGE RESALE HOME.

[CLICK HERE FOR DETAILS ON NEW HOMES IN WEST CYPRESS HILLS READY FOR IMMEDIATE MOVE-IN!](http://WWW.WESTCYPRESSHILLS.COM)  
[WWW.WESTCYPRESSHILLS.COM](http://WWW.WESTCYPRESSHILLS.COM)

FOR MORE INFORMATION CALL:  
STREETMAN HOMES - 512.264.7077  
PLANTATION HOMES - 512.264.1182



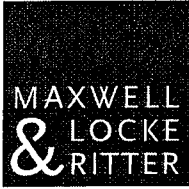
  
**WestCypressHills**





**APPENDIX A**

AUDITED FINANCIAL STATEMENT OF THE DISTRICT  
FOR THE YEAR ENDED SEPTEMBER 30, 2015



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*  
An Affiliate of CPAmerica International  
tel (512) 370 3200 fax (512) 370 3250  
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100  
Austin, TX 78701

Round Rock: 303 East Main Street  
Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Cypress Ranch Water Control and Improvement District No. 1:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Cypress Ranch Water Control and Improvement District No. 1 (the "District"), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

Affiliated Company  
ML&R WEALTH MANAGEMENT LLC  
*"A Registered Investment Advisor"*  
*This firm is not a CPA firm*

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2015, and the respective changes in financial position, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information required by the Texas Commission on Environmental Quality (the "TCEQ") listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.



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

*Maxwell Socha + Pitter LLP*

Austin, Texas

January 22, 2016

# **CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1**

## **Management's Discussion and Analysis For the Year Ended September 30, 2015**

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the management of Cypress Ranch Water Control and Improvement District No. 1 (the "District") offers the following narrative on the financial performance of the District for the year ended September 30, 2015. Please read it in connection with the District's financial statements that follow.

For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Total Governmental Funds" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the *Statement of Net Position* and the *Statement of Activities*.

### **Financial Highlights**

- At September 30, 2015, the liabilities of the District exceeded its assets by approximately \$1.7 million.
- The District levied an ad valorem tax of \$0.90 on each \$100 of taxable property within the District. Property within the District was valued at approximately \$84.6 million, which resulted in a property tax levy of approximately \$762,000. As of September 30, 2015, the District had collected 99.8% of property taxes levied during fiscal year 2015.

### **Overview of the Basic Financial Statements**

The District's reporting is comprised of two parts:

- *Management's Discussion and Analysis* (this section)
- *Basic Financial Statements*
  - *Statement of Net Position and Governmental Funds Balance Sheet*
  - *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*
  - *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund*
  - *Notes to Basic Financial Statements*

Other supplementary information is also included.

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

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

The *Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund* presents a comparison statement between the District's amended budget to its actual results.

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

Schedules required by the Texas Commission on Environmental Quality are presented immediately following the *Notes to Basic Financial Statements*.

**Comparative Financial Statements**

Statement of Net Position

	Governmental Activities		
	2015	2014	% Change
Current assets	\$ 2,053,645	\$ 1,402,856	46%
Capital assets	11,115,538	5,504,047	102%
<b>Total assets</b>	<b>\$ 13,169,183</b>	<b>\$ 6,906,903</b>	<b>91%</b>
Current liabilities	\$ 544,140	\$ 377,428	44%
Non-current liabilities	14,335,972	7,885,685	82%
<b>Total liabilities</b>	<b>\$ 14,880,112</b>	<b>\$ 8,263,113</b>	<b>80%</b>
Net investment in capital assets	\$ (2,904,561)	\$ (2,061,135)	(41%)
Restricted for debt service	713,604	690,238	3%
Unrestricted	480,028	14,687	3168%
<b>Total net position</b>	<b>\$ (1,710,929)</b>	<b>\$ (1,356,210)</b>	<b>(26%)</b>

The District's total assets were approximately \$13,169,000 as of September 30, 2015. Of this amount, approximately \$11,116,000 is accounted for by capital assets. The District had outstanding liabilities of approximately \$14,880,000 at September 30, 2015, of which approximately \$334,000 represents developer advances and \$14,177,000 represents bonds payable.

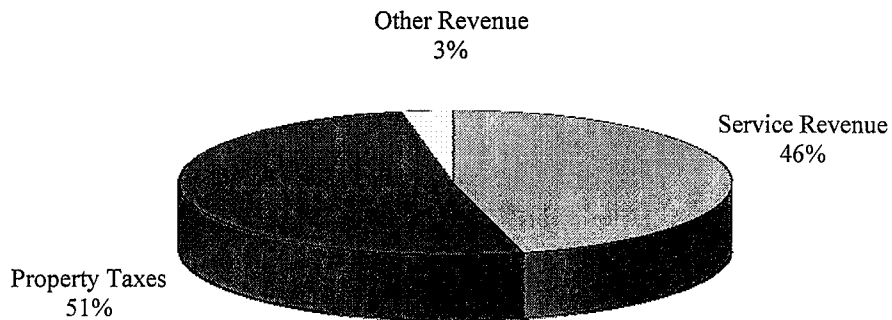
The District's property tax assessed value in fiscal year 2015 (which is based on the value of property within the District as of January 1, 2014) was approximately \$84,600,000 compared to approximately \$62,400,000 in fiscal year 2014. The tax rate is set after reviewing operations and maintenance requirements, debt service requirements and proposed water rates. The District's primary revenue sources are utility services and property taxes.

Statement of Activities

	Governmental Activities		
	2015	2014	% Change
Utility services	\$ 706,581	\$ 572,759	23%
Taxes and miscellaneous	819,075	585,382	40%
<b>Total revenues</b>	<b>1,525,656</b>	<b>1,158,141</b>	<b>32%</b>
Repairs and maintenance	296,056	224,409	32%
Professional fees	121,234	90,594	34%
Management services	106,778	100,649	6%
Inspection fees	53,749	38,974	38%
Water and wastewater operations	49,571	94,413	(47%)
LCRA reserved water charge	32,918	32,918	-
Utilities	24,996	22,060	13%
Directors' fees	7,002	4,844	45%
Other	12,829	8,922	44%
Debt service	795,731	317,642	151%
Depreciation	379,511	290,093	31%
<b>Total expenses</b>	<b>1,880,375</b>	<b>1,225,999</b>	<b>53%</b>
Change in net position	(354,719)	(67,858)	(423%)
Beginning net position	(1,356,210)	(1,288,352)	(5%)
<b>Ending net position</b>	<b>\$ (1,710,929)</b>	<b>\$ (1,356,210)</b>	<b>(26%)</b>

Operating revenues increased by approximately \$367,000 to approximately \$1,526,000 for the fiscal year ended September 30, 2015. Utility services provided approximately \$707,000 and property taxes generated approximately \$819,000 in revenues for the fiscal year ended September 30, 2015. Total expenses increased approximately \$654,000 to approximately \$1,880,000 for the fiscal year ended September 30, 2015. Net position decreased approximately \$355,000 during 2015 to an ending deficit balance of approximately \$1,711,000 for the fiscal year ended September 30, 2015.

**Sources of Revenue**



## Analysis of Governmental Funds

### Government Funds by Year

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Cash	\$ 1,972,670	\$ 1,343,846	\$ 1,559,918
Receivables	79,015	57,050	42,030
Prepaid items	1,960	1,960	4,122
Interfund receivable	4,267	2,102	2,214
Total assets	<u>\$ 2,057,912</u>	<u>\$ 1,404,958</u>	<u>\$ 1,608,284</u>
Accounts payable	\$ 46,662	\$ 50,758	\$ 53,609
Customer deposits	213,950	120,900	50,000
Other liabilities	2,289	2,275	3,304
Interfund payable	4,267	2,102	2,214
Total liabilities	<u>267,168</u>	<u>176,035</u>	<u>109,127</u>
Deferred inflows of resources	<u>1,539</u>	<u>3,330</u>	<u>-</u>
Nonspendable fund balance	1,960	-	-
Restricted fund balance	1,085,378	727,110	1,172,744
Assigned fund balance	273,000	149,500	39,000
Unassigned fund balance	<u>428,867</u>	<u>348,983</u>	<u>287,413</u>
Total fund balances	<u>1,789,205</u>	<u>1,225,593</u>	<u>1,499,157</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,057,912</u>	<u>\$ 1,404,958</u>	<u>\$ 1,608,284</u>

The *General Fund* pays for daily operating expenditures. When comparing actual amounts to final budget, actual revenues exceeded budget by approximately \$209,000. Water usage and tap connection/inspection fees including water capacity fees were higher than projected causing revenue to be higher than planned. Budgeted expenditures were higher than actual by approximately \$157,000 due to overall cost savings. More detailed information about the District's budgetary comparison is presented in the *Basic Financial Statements*.

The *Debt Service Fund* primarily includes debt service taxes and other revenues collected to retire bond principal and pay for interest due. More detailed information about the District's debt is presented in the *Notes to Basic Financial Statements*.

The *Capital Projects Fund* primarily purchases the District's infrastructure.

### Capital Assets and Long-term Debt Activity

#### Capital Assets

	<u>2015</u>	<u>2014</u>
Infrastructure	\$ 11,959,537	\$ 6,133,786
Land	225,792	114,335
Construction in progress	74,016	20,222
Subtotal	12,259,537	6,268,343
Accumulated depreciation	<u>(1,143,807)</u>	<u>(764,296)</u>
Total	<u>\$ 11,115,538</u>	<u>\$ 5,504,047</u>

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

Long-Term Debt Activity

	<u>2015</u>	<u>2014</u>
Series 2009 bonds	\$ 2,795,000	\$ 2,865,000
Series 2013 bonds	4,405,000	4,500,000
Series 2015 bonds	<u>7,000,000</u>	<u>-</u>
Total bonds outstanding	14,200,000	7,365,000
Add: Developer advances	<u>334,141</u>	<u>709,932</u>
Total	<u>\$ 14,534,141</u>	<u>\$ 8,074,932</u>

On June 30, 2015, the District issued \$7,000,000 in Unlimited Tax Bonds, Series 2015. The net proceeds after payment of underwriting fees, insurance, and other issuance costs were used to fund capital asset purchases.

At September 30, 2015, the District owes \$14,200,000 to bond holders. More detailed information about the District's long-term debt is presented in the *Notes to Basic Financial Statements*. At September 30, 2015, unlimited tax bonds of \$23,988,500 were authorized by the voters of the District, but unissued.

At September 30, 2015, the District owed \$222,684 to the developer for advances used to fund operating activities and \$111,457 to the developer for land that was conveyed.

**Currently Known Facts, Decisions, or Conditions**

For fiscal year 2016, the tax rate has been set at \$0.90 per \$100 of assessed valuation with \$0.225 for maintenance and operating expenditures and \$0.675 for debt service. The adopted budget for fiscal year 2016 projects revenues of approximately \$770,000 and expenditures of approximately \$755,000 for the General Fund.

**Requests for Information**

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District c/o Blakeslee, Monzingo & Co. at 102 N. Railroad Avenue, Pflugerville, Texas 78660.

# CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET SEPTEMBER 30, 2015

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF NET POSITION
<b><u>ASSETS</u></b>						
Cash and cash equivalents	\$ 891,979	812,502	268,189	1,972,670	-	1,972,670
Receivables:						
Service accounts	69,735	-	-	69,735	-	69,735
Taxes	4,246	5,034	-	9,280	-	9,280
Due from other funds	1,960	2,307	-	4,267	(4,267)	-
Prepaid items	-	-	1,960	1,960	-	1,960
Capital assets (net of accumulated depreciation):						
Land	-	-	-	-	225,792	225,792
Construction in progress	-	-	-	-	74,016	74,016
Infrastructure	-	-	-	-	10,815,730	10,815,730
Total assets	<u>\$ 967,920</u>	<u>819,843</u>	<u>270,149</u>	<u>2,057,912</u>	<u>11,111,271</u>	<u>13,169,183</u>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 46,662	-	-	46,662	-	46,662
Customer deposits	213,950	-	-	213,950	-	213,950
Other liabilities	2,289	-	-	2,289	-	2,289
Accrued bond interest payable	-	-	-	-	106,239	106,239
Due to other funds	2,307	-	1,960	4,267	(4,267)	-
Long-term liabilities:						
Developer advances	-	-	-	-	334,141	334,141
Due within one year	-	-	-	-	175,000	175,000
Due after one year, net	-	-	-	-	14,001,831	14,001,831
Total liabilities	<u>265,208</u>	<u>-</u>	<u>1,960</u>	<u>267,168</u>	<u>14,612,944</u>	<u>14,880,112</u>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Property taxes	845	694	-	1,539	(1,539)	-
<b><u>FUND BALANCES/NET POSITION</u></b>						
Fund balances:						
Nonspendable-						
Prepaid items	-	-	1,960	1,960	(1,960)	-
Restricted for:						
Debt service	-	819,149	-	819,149	(819,149)	-
Capital projects	-	-	266,229	266,229	(266,229)	-
Assigned for future surface water costs	273,000	-	-	273,000	(273,000)	-
Unassigned	428,867	-	-	428,867	(428,867)	-
Total fund balances	<u>701,867</u>	<u>819,149</u>	<u>268,189</u>	<u>1,789,205</u>	<u>(1,789,205)</u>	<u>-</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 967,920</u>	<u>819,843</u>	<u>270,149</u>	<u>2,057,912</u>		
Net position:						
Net investment in capital assets					(2,904,561)	(2,904,561)
Restricted for debt service					713,604	713,604
Unrestricted					480,028	480,028
Total net position					<u>\$ (1,710,929)</u>	<u>\$ (1,710,929)</u>

The notes to the financial statements are an integral part of this statement.

# CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES YEAR ENDED SEPTEMBER 30, 2015

	GENERAL FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL GOVERNMENTAL FUNDS	ADJUSTMENTS (NOTE 2)	STATEMENT OF ACTIVITIES
<b>EXPENDITURES/EXPENSES:</b>						
Service operations:						
Repairs and maintenance	\$ 296,056	-	-	296,056	-	296,056
Management services	106,778	-	-	106,778	-	106,778
Engineering fees	60,457	-	-	60,457	-	60,457
Inspection and connection fees	53,749	-	-	53,749	-	53,749
Water and wastewater operations	49,571	-	-	49,571	-	49,571
LCRA reserved water charge	32,918	-	-	32,918	-	32,918
Legal fees	30,815	-	-	30,815	-	30,815
Utilities	24,996	-	-	24,996	-	24,996
Bookkeeping	18,462	-	-	18,462	-	18,462
Audit fees	11,500	-	-	11,500	-	11,500
Directors' fees	7,002	-	-	7,002	-	7,002
Appraisal and collection fees	4,821	-	-	4,821	-	4,821
Insurance	3,960	-	-	3,960	-	3,960
Other	3,570	472	6	4,048	-	4,048
Capital outlay	53,794	-	5,825,751	5,879,545	(5,879,545)	-
Debt service:						
Bond principal payment	-	165,000	-	165,000	(165,000)	-
Interest and fiscal charges	-	307,960	-	307,960	68,822	376,782
Bond issuance costs	-	-	418,949	418,949	-	418,949
Developer payments	-	-	487,248	487,248	(487,248)	-
Depreciation	-	-	-	-	379,511	379,511
Total expenditures/expenses	<u>758,449</u>	<u>473,432</u>	<u>6,731,954</u>	<u>7,963,835</u>	<u>(6,083,460)</u>	<u>1,880,375</u>
<b>REVENUES:</b>						
Program revenues:						
Water and wastewater services	528,801	-	-	528,801	-	528,801
Tap connection/inspection fees	177,780	-	-	177,780	-	177,780
Total program revenues	<u>706,581</u>	<u>-</u>	<u>-</u>	<u>706,581</u>	<u>-</u>	<u>706,581</u>
Net program expense						<u>(1,173,794)</u>
General revenues:						
Property taxes, including penalties and interest	222,461	562,395	-	784,856	(1,791)	783,065
Other	32,791	3,219	-	36,010	-	36,010
Total general revenues	<u>255,252</u>	<u>565,614</u>	<u>-</u>	<u>820,866</u>	<u>(1,791)</u>	<u>819,075</u>
Total revenues	<u>961,833</u>	<u>565,614</u>	<u>-</u>	<u>1,527,447</u>	<u>(1,791)</u>	<u>1,525,656</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>203,384</u>	<u>92,182</u>	<u>(6,731,954)</u>	<u>(6,436,388)</u>	<u>6,081,669</u>	<u>(354,719)</u>
<b>OTHER FINANCING SOURCES-</b>						
Proceeds from sale of bonds	-	-	7,000,000	7,000,000	(7,000,000)	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>7,000,000</u>	<u>7,000,000</u>	<u>(7,000,000)</u>	<u>-</u>
Change in fund balances / net position	203,384	92,182	268,046	563,612	(918,331)	(354,719)
<b>FUND BALANCES/NET POSITION:</b>						
Beginning of year	498,483	726,967	143	1,225,593	(2,581,803)	(1,356,210)
End of year	<u>\$ 701,867</u>	<u>819,149</u>	<u>268,189</u>	<u>1,789,205</u>	<u>(3,500,134)</u>	<u>(1,710,929)</u>

The notes to the financial statements are an integral part of this statement.



# CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND YEAR ENDED SEPTEMBER 30, 2015

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
<b>REVENUES:</b>				
Property taxes, including penalties and interest	\$ 207,436	217,172	222,461	5,289
Water and wastewater services	408,200	454,200	528,801	74,601
Tap connection/inspection fees	31,300	35,800	177,780	141,980
Other	43,991	45,991	32,791	(13,200)
Total revenues	690,927	753,163	961,833	208,670
<b>EXPENDITURES:</b>				
Service operations:				
Repairs and maintenance	220,000	283,000	296,056	(13,056)
Management services	96,000	107,000	106,778	222
Engineering fees	50,000	70,000	60,457	9,543
Inspection and connection fees	40,000	60,000	53,749	6,251
Water and wastewater operations	126,000	101,000	49,571	51,429
Reclaimed water project	-	150,000	-	150,000
LCRA reserved water charge	32,918	32,918	32,918	-
Legal fees	35,000	35,000	30,815	4,185
Utilities	25,000	27,000	24,996	2,004
Bookkeeping	15,000	17,500	18,462	(962)
Audit fees	11,500	11,500	11,500	-
Directors' fees	8,000	8,000	7,002	998
Appraisal and collection fees	4,000	5,500	4,821	679
Insurance	4,000	4,000	3,960	40
Other	3,000	3,000	3,570	(570)
Capital outlay	-	-	53,794	(53,794)
Total expenditures	670,418	915,418	758,449	156,969
<b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER) EXPENDITURES</b>	20,509	(162,255)	203,384	365,639
<b>FUND BALANCE:</b>				
Beginning of year	498,483	498,483	498,483	-
End of year	\$ 518,992	336,228	701,867	365,639

The notes to the financial statements are an integral part of this statement.

# CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1

## NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2015

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cypress Ranch Water Control and Improvement District No. 1 (the "District") was created, organized and established in 2003 by the Texas Commission on Environmental Quality pursuant to the provisions of Chapter 51 of the Texas Water Code. The Board of Directors (the "Board") held its first meeting in July 2003.

The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 14 since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District's reporting entity.

**Government-wide and Fund Financial Statements** - For purposes of GASB Statement No. 34, the District is considered a special purpose government. This allows the District to present the required fund and government-wide statements in a single schedule. The requirement for fund financial statements that are prepared on the modified accrual basis of accounting is met with the "Total Governmental Funds" column. An adjustment column includes those entries needed to convert to the full accrual basis government-wide statements. Government-wide statements are comprised of the statement of net position and the statement of activities.

The government-wide financial statements report information on all of the activities of the District. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by the District. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Major revenue sources considered susceptible to accrual include interest income and property taxes. Delinquent property taxes at year end that are not collected within sixty days of year end are reported as deferred inflows of resources.

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balances are considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due.

The Capital Projects Fund is used to account for financial resources restricted for authorized construction and other capital asset acquisitions.

**Budgets and Budgetary Accounting** - Formal budgetary integration is employed as a management control device for the General Fund. Formal budgetary integration is not employed for the Debt Service Fund or the Capital Projects Fund. The budget is proposed by the District accountant for the fiscal year commencing the following October 1, and is adopted on the modified accrual basis, which is consistent with generally accepted accounting principles.

**Accounting Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position or Fund Balance**

Cash and Cash Equivalents - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of money market funds, are recorded at cost which approximates fair market value.

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items will be charged to expenditures when consumed.

Capital Assets - Capital assets, which include land, construction in progress, and infrastructure (water systems purchased, constructed, or donated) are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of at least \$5,000. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (excluding land and construction in progress) are depreciated using the straight line method over the following estimated useful lives: infrastructure - twenty years.

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

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

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

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

Fund Equity - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 9 for additional information on those fund balance classifications.

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

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

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds total fund balance	\$ 1,789,205
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets, net of accumulated depreciation	11,115,538
Deferred tax revenue is not available to pay for current-period expenditures and, therefore, is deferred in the funds.	1,539
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable, net of bond premium and discount	(14,176,831)
Developer advances	(222,684)
Developer advance for land conveyed	(111,457)
Bond interest payable	(106,239)
Total net position	<u>\$ (1,710,929)</u>

Amounts reported for governmental activities in the statement of activities are different because:

Change in governmental fund balances	\$ 563,612
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	5,879,545
Depreciation	(379,511)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	(1,791)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bond proceeds	(7,000,000)
Repayment of bond principal	165,000
Developer payments	487,248
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in bond interest payable	(67,744)
Amortization of bond discount	(1,766)
Amortization of bond premium	688
Change in net position	<u>\$ (354,719)</u>

### 3. CASH AND CASH EQUIVALENTS

The District's deposits are required to be secured in the manner provided by law for the security of the funds. At September 30, 2015, such deposits were entirely covered by Federal Deposit Insurance Corporation insurance or secured by collateral pledged by the depository.

### 4. CAPITAL ASSETS

Capital assets activity for the year ended September 30, 2015 was as follows:

	Balance September 30, 2014	Additions	Retirements and Transfers	Balance September 30, 2015
Capital assets not being depreciated:				
Land	\$ 114,335	111,457	-	225,792
Construction in progress	20,222	53,794	-	74,016
Total capital assets not being depreciated	<u>134,557</u>	<u>165,251</u>	<u>-</u>	<u>299,808</u>
Capital assets being depreciated-				
Infrastructure	6,133,786	5,825,751	-	11,959,537
Less accumulated depreciation for-				
Infrastructure	<u>(764,296)</u>	<u>(379,511)</u>	<u>-</u>	<u>(1,143,807)</u>
Total capital assets being depreciated, net	<u>5,369,490</u>	<u>5,446,240</u>	<u>-</u>	<u>10,815,730</u>
Capital assets, net	<u>\$ 5,504,047</u>	<u>5,611,491</u>	<u>-</u>	<u>11,115,538</u>

### 5. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances as of September 30, 2015 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Capital Projects	\$ 1,960
Debt Service	General Fund	<u>2,307</u>
Total		<u>\$ 4,267</u>

## 6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended September 30, 2015:

	Balance September 30, 2014	Additions	Retirements	Balance September 30, 2015
Unlimited Tax Bonds Series 2009	\$ 2,865,000	-	(70,000)	2,795,000
Unlimited Tax Bonds Series 2013	4,500,000	-	(95,000)	4,405,000
Unlimited Tax Bonds Series 2015	-	7,000,000	-	7,000,000
Premium on bond issuance	15,474	-	(688)	14,786
Discount on bond issuance	(39,721)	-	1,766	(37,955)
	<u>\$ 7,340,753</u>	<u>7,000,000</u>	<u>(163,922)</u>	<u>14,176,831</u>

Long-term debt at September 30, 2015 is summarized as follows:

Series	Description	Matures	Interest Rates %	Balance September 30, 2015	Due Within One Year
2009	Unlimited Tax Bonds	2035	3.0-5.0%	\$ 2,795,000	\$ 75,000
2013	Unlimited Tax Bonds	2037	2.1-4.0%	4,405,000	100,000
2015	Unlimited Tax Bonds	2044	3.0-4.0%	7,000,000	-
				<u>\$ 14,200,000</u>	<u>\$ 175,000</u>

Debt service requirements to maturity for the District's bonds are as follows:

Fiscal Year	Principal	Interest	Total
2016	\$ 175,000	616,074	785,074
2017	185,000	568,998	753,998
2018	340,000	563,435	903,435
2019	355,000	553,250	908,250
2020	375,000	541,820	916,820
2021-2025	2,195,000	2,492,580	4,687,580
2026-2030	2,865,000	1,995,005	4,860,005
2031-2035	3,740,000	1,301,601	5,041,001
2036-2040	2,345,000	572,600	2,917,600
2041-2044	1,625,000	166,200	1,791,200
Total	<u>\$ 14,200,000</u>	<u>9,364,963</u>	<u>23,564,963</u>

On June 30, 2015, the District issued \$7,000,000 in Unlimited Tax Bonds, Series 2015, with interest rates ranging from 3.00% to 4.00%. The net proceeds of \$6,659,529 (after payment of underwriting fees, insurance, and other issuance costs) were used as follows: \$6,312,999 was reimbursed to developers for capital assets and \$346,530 was deposited in the Capital Projects fund for future capital asset purchases.

The 2009, 2013, and 2015 Bond Resolution requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and cover the cost of assessing and collecting taxes. These provisions have been met, and the cash allocated for these purposes is sufficient to meet debt service requirements through the fiscal year ended September 30, 2015.

At September 30, 2015, there was \$23,988,500 of bonds authorized by voters of the District, but unissued.

## **7. PROPERTY TAXES**

The Texas Water Code authorizes the District to levy a tax each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located within its boundaries. Assessed values are established annually by the Travis Central Appraisal District. District property tax revenues are recognized when levied to the extent that they are collected in the current year. The uncollected balance is reported as deferred inflows of resources. Taxes receivable are due January 1 and are delinquent if received after January 31 and are subject to penalty and interest charges.

In September 2014, the District levied a tax rate of \$0.90 per \$100 of assessed valuation to finance operating expenditures and debt service requirements. The maintenance tax rate was \$0.25 and the debt service tax rate was \$0.65 for fiscal year 2015. The total 2014 tax levy was \$761,973 based on a taxable valuation of \$84,565,049.

## **8. COMMITMENTS AND CONTINGENCIES**

The District is currently under development and the construction of facilities is being paid by the developers of the District. The Board of the District authorized the funding of the projects and the reimbursement of Cypress Ranch, Ltd. for the cost of the projects out of bond proceeds when the bonds are authorized and issued. The bond proceeds will be used to purchase all of the capital assets within the District including related infrastructure. As of September 30, 2015, the estimate of total bonds needed to purchase the remaining infrastructure was \$23,988,500. As of September 30, 2015, developer commitments under construction contracts (complete and in-progress) totaled approximately \$7,820,000. At September 30, 2015, the District owed to the developer \$222,684 for advances used to fund operating activities and \$111,457 for land conveyed.



## 9. FUND BALANCES

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

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, the Board may appropriate amounts that are to be used for a specific purpose. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances is included in the Governmental Funds Balance Sheet on page 10. Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board has the authority to assign fund balance for a specific purpose.

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

## 10. RISK MANAGEMENT

The District's risk management program includes coverage through third party insurance providers for director and officer liability, public official position liability and general liability. Losses in excess of the various deductible levels are covered through traditional indemnity coverage. No claims were filed during the current period.

**APPENDIX B**

FORM OF BOND COUNSEL'S OPINION

**FREEMAN & CORBETT**

PHONE (512) 451-6689

8500 Bluffstone Cove, Suite B-104  
Austin, Texas 78759

FAX (512) 453-0865

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

**CYPRESS RANCH WATER CONTROL AND IMPROVEMENT DISTRICT NO. 1  
\$ \_\_\_\_\_ UNLIMITED TAX REFUNDING BONDS, SERIES 2016**

**WE HAVE ACTED AS BOND COUNSEL** TO Cypress Ranch Water Control and Improvement District No. 1 (the “District”) in connection with the issuance of the bonds described above (the “Bonds”) for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the District with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District.

**IN OUR CAPACITY AS BOND COUNSEL**, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the District; a resolution authorizing the Bonds adopted on September 22, 2016 (the “Resolution”); the “Pricing Certificate” dated \_\_\_\_\_, 2016; the “Bond Purchase Agreement” dated \_\_\_\_\_, 2016 between the underwriter named therein and the District; the “Escrow Agreement” dated September 22, 2016 between the District and BOKF, N.A., Austin, Texas, (the “Escrow Agent”); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the District, and other public officials; and other documents relating to the issuance of the Bonds. We have also examined certificates concerning the amount of the principal of and interest due on the obligations being refunded with the proceeds of the Bonds (the “Refunded Obligations”). We have also examined the executed initial bond of this issue.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the District has been validly created and organized and that the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; that therefore the Bonds are valid and legally binding special obligations of the District, and all taxable property in the District is subject to the levy of ad valorem taxes to pay same, without legal limitation as to rate or amount.

The Bonds are obligations solely of the District and are not the obligations of the State of

Texas or any other political subdivision or agency. The District's obligations with respect to the Bonds are subject to limitation by applicable federal bankruptcy laws and other laws which may from time to time affect the rights of creditors of political subdivisions.

We express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of the Bonds.

Our opinions are based on existing statutes, court decisions and other law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any statutes, case law or other law that may hereafter occur or become effective.

Respectfully submitted,

**APPENDIX C**

FORM OF SPECIAL TAX COUNSEL'S OPINION

**Texas  
New York  
Washington, DC  
Connecticut  
Seattle  
Dubai  
London**

Bracewell LLP  
111 Congress Avenue  
Suite 2300  
Austin, Texas  
78701-4061  
  
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[www.bracewelllaw.com](http://www.bracewelllaw.com)

[DATE]

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the Cypress Ranch Water Control and Improvement District No. 1 (the “District”), in connection with an issue of bonds (the “Bonds”) described as follows:

Cypress Ranch Water Control and Improvement District No. 1 Unlimited Tax Refunding Bonds, Series 2016 aggregating \$2,900,000\* in initial principal amount and initially dated as of October 1, 2016.

WE HAVE ACTED AS SPECIAL TAX COUNSEL for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied upon certificates executed by officers, agents and representatives of the District and other public officials. We have assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds. We have acted only as special tax counsel. We understand that the District’s bond counsel, Freeman & Corbett (“Bond Counsel”), is not responsible for our opinion as special tax counsel and our law firm is not responsible for any of the matters that are the subject of opinions rendered by Bond Counsel. In like manner, neither Bond Counsel nor our law firm has exercised joint responsibility or supervised the work of the other firm with respect to the Bonds or the proceedings relating to the same, but Bond Counsel has been solely responsible therefor, and we have been solely responsible only for our opinion as special tax counsel. The two firms are not part of a partnership and each firm is an independent entity.

IN OUR CAPACITY AS SPECIAL TAX COUNSEL, we have examined a transcript of certified proceedings pertaining to the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the District; a report (the “Report”) of Grant Thornton LLP (the “Verification Agent”), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded; and customary certificates of officers, agents and representatives of the District and other public officials. We have also examined such applicable provisions of the

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\* Preliminary

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Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Resolution adopted by the District with respect to the issuance of the Bonds (the “Resolution”).

BASED ON SUCH EXAMINATION, IT IS OUR OPINION that, under existing law:

1. Interest on the Bonds is excludable from gross income for federal income tax purposes.
2. The Bonds are not “private activity bonds” within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the “adjusted current earnings” of a corporation (other than any S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax liability.

In providing such opinions, we have relied on legal opinions of the Attorney General of the State of Texas and of Bond Counsel of even date herewith regarding the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have further relied on representations of the District, the District’s financial advisor and the underwriters of the Bonds with respect to matters solely within the knowledge of the District, the District’s financial advisor and the underwriters of the Bonds, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Resolution pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations. If such representations or the Report are determined to be inaccurate or incomplete or the District fails to comply with the foregoing covenants of the Resolution, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life

[DATE]

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insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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