

This Official Notice of Sale does not alone constitute an invitation for bids on the Bonds but is merely notice of the sale of the Bonds described herein. The invitation for bids is being made by means of this Official Notice of Sale, the Official Bid Form attached hereto and the Preliminary Official Statement. Information contained in this Official Notice of Sale is qualified in its entirety by the detailed information contained in the Official Statement.

OFFICIAL NOTICE OF SALE

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
(A political subdivision of the State of Texas located within Travis County)
\$4,400,000
UNLIMITED TAX BONDS, SERIES 2016A

The Bonds are obligations of Travis County Municipal Utility District No. 13 (the "District") and are not obligations of the City of Lakeway, the Lake Travis Independent School District, Travis County, the State of Texas, or any entity other than the District.

The Bonds will be designated as "Qualified Tax-Exempt Obligations" for Financial Institutions (see "DELIVERY AND ACCOMPANYING DOCUMENTS – Qualified Tax-Exempt Obligations" herein).

THE SALE

BONDS OFFERED FOR SALE BY COMPETITIVE BIDDING: The Board of Directors (the "Board") of the District is inviting competitive bids for the purchase of \$4,400,000 Unlimited Tax Bonds, Series 2016A (the "Bonds"). Sealed bids may be submitted by either of three alternative procedures: (1) written bids; (2) electronic bids; or (3) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the District nor its Financial Advisor, Specialized Public Finance Inc., assumes any responsibility or liability for a prospective bidding procedure.

The District and Specialized Public Finance Inc., assume no responsibility or liability with respect to any irregularities associated with the submission of bids by telephone, facsimile or electronic options.

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

PROCEDURE NUMBER 1: WRITTEN BIDS: Bids, plainly marked "Bid for Bonds", should be addressed to "President and Board of Directors, Travis County Municipal Utility District No. 13", and should be delivered to the District's Financial Advisor, Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, by 10:00 A.M., CDT, on October 19, 2016 ("the date of the bid opening").

PROCEDURE NUMBER 2: ELECTRONIC BIDDING PROCEDURES: Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY by 10:00 A.M., CDT, on the date of the bid opening. ***Bidders must also submit, by 10:30 A.M., CDT, on the date of the bid opening, SIGNED OFFICIAL BID FORMS to Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.***

Subscription to the i-Deal LLC's BIDCOMP Competitive Bidding System is required in order to submit an electronic bid through PARITY. Further information about PARITY, including any fee charged, may be obtained from Dalcomp/Parity, 395 Hudson Street, New York, New York 10014, attention: Jennifer Emery (212) 806-8304.

The District will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe to the bidding system. An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Bonds on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed, sealed bid delivered to the District. Neither Specialized Public Finance Inc. nor the District shall be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of PARITY, the use of such facilities being the sole risk of the prospective bidder.

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

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

PROCEDURE NUMBER 3: BIDS BY TELEPHONE OR FACSIMILE: Bidders must submit by 10:00 A.M., CDT, on the date of the bid opening, SIGNED Official Bid Form to Garry Kimball, Specialized Public Finance Inc., at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) by 10:00 A.M., CDT, on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 9:30 A.M. and 10:00 A.M., CDT on the date of the bid opening.

Fax bids must be received between 9:30 A.M. and 10:00 A.M., CDT, on the date of the bid opening at (512) 275-7305, attention: Garry Kimball.

PLACE AND TIME OF BID OPENING: The Board will award the sale of the Bonds at the offices of the District’s General Counsel, Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701, at 12:30 noon, CDT, on Wednesday, October 19, 2016. All bids, including those being hand delivered, must be received by 10:00 A.M., CDT on the date of bid opening. Any bid received after the scheduled time for receipt will not be accepted by the Board and will be returned unopened.

AWARD OF THE BONDS: The District will take action to award the Bonds or reject any or all bids promptly upon the opening of bids. Upon awarding the Bonds to the winning bidder (the “Initial Purchaser”), the Board will adopt an order authorizing the issuance of the Bonds (the “Bond Order”). Sale of the Bonds will be made subject to the terms, conditions and provisions of the Bond Order, to which Bond Order reference is hereby made for all purposes. The District reserves the right to reject any and all bids and to waive any irregularities, except the time of filing.

WITHDRAWAL OF THE BIDS: Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for six hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE: The District reserves the right to extend the date and/or time for the receipt of bids by giving notice, by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 P.M., CDT, on Tuesday, October 18, 2016, of the new date and time for receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE BONDS

DESCRIPTION OF THE BONDS: The Bonds will be dated October 15, 2016, and interest will accrue from the date of initial delivery, will be payable on August 15, 2017, and on each February 15 and August 15 thereafter until the earlier of maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity, and principal and interest will be paid by BOKF, NA (the “Paying Agent/Registrar”) which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See the Preliminary Official Statement (made a part hereof) for a more complete description of the Bonds, including redemption provisions. The Bonds will mature on August 15 in the years and amounts as follows:

MATURITY SCHEDULE

| Year | Principal Amount | Year | Principal Amount |
|------|---------------------|------|---------------------|
| 2019 | \$ 100,000 | 2033 | \$ 150,000 |
| 2020 | 125,000 | 2034 | 150,000 |
| 2021 | 125,000 | 2035 | 150,000 |
| 2022 | 130,000 | 2036 | 150,000 |
| 2023 | 130,000 | 2037 | 150,000 |
| 2024 | 130,000 | 2038 | 150,000 |
| 2025 | 135,000 | 2039 | 150,000 |
| 2026 | 135,000 | 2040 | 150,000 |
| 2027 | 140,000 | 2041 | 240,000 |
| 2028 | 145,000 | 2042 | 250,000 |
| 2029 | 145,000 | 2043 | 265,000 |
| 2030 | 145,000 | 2044 | 275,000 |
| 2031 | 150,000 | 2045 | 285,000 |
| 2032 | 150,000 | | |

OPTIONAL REDEMPTION PROVISIONS: Bonds maturing on and after August 15, 2025, are subject to redemption prior to maturity, at the option of the District, as a whole or, from time to time in part, on August 15, 2024, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date 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 shall be selected by the District.

MANDATORY SINKING FUND REDEMPTION: If the successful bidder designates principal amounts to be combined into one or more term bonds (“Term Bonds”), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on August 15 of the first year which has been combined to form such Term Bond and continuing on August 15 in each year thereafter until the stated maturity date of that Term Bond. The amount redeemed in any year shall be equal to the principal amount for such year set forth above under the captioned “MATURITY SCHEDULE.” Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par by lot or other customary method. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of Term Bonds that have been redeemed in such year and have not been the basis for any prior optional redemption.

OTHER TERMS AND COVENANTS: Other terms of the Bonds and various covenants of the District are contained in the Bond Order, which is described in the Preliminary Official Statement, to which reference is made for all purposes.

SOURCE AND SECURITY OF PAYMENT: The Bonds will constitute valid and legally binding obligations of the District, with principal and interest payable solely from the proceeds of a continuing, direct, annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the City of Lakeway, Lake Travis Independent School District, Travis County, the State of Texas, or any entity other than the District.

BOOK-ENTRY-ONLY SYSTEM: The District intends to utilize the book-entry-only system of DTC. See “THE BONDS – Book-Entry-Only System” in the Preliminary Official Statement.

REGISTERED FORM REQUIREMENT: Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) must be in registered form in order for the interest payable on such obligations to be excluded from the Registered Owners’ income for federal income tax purposes.

SUCCESSOR PAYING AGENT/REGISTRAR: Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or any state thereof subject to supervision or examination by federal or state banking authorities.

CONDITIONS OF THE SALE

TYPES OF BIDS AND INTEREST RATES: The Bonds will be sold in one block on an “all or none” basis at a price of not less than ninety-seven percent (97%) of the par value. Bidders are to name the rate or rates of interest to be borne by the Bonds, provided that each interest rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1%. The net effective interest rate on the Bonds may not exceed a rate which is two percentage points (2.00%) above the highest “20 Bond Index” as reported by the “Bond Buyer” during the thirty (30) day period prior to the date of this Official Notice of Sale. Subject to the conditions below, no limitation will be imposed upon bidders as to the number of interest rates that may be used, but each rate of interest specified for the Bonds of any maturity shall not be less than the rate of interest specified for any earlier maturity and the highest interest rate bid may not exceed the lowest interest rate bid by more than 3.0% in rate. All Bonds maturing within a single year must bear the same rate of interest. No bids for the Bonds involving supplemental interest rates will be considered. Each bidder shall state in its bid the total and net interest cost in dollars and the net effective interest rate determined thereby, which shall be considered informative only and not as a part of the bid. No bid generating a cash premium greater than \$5,000 will be considered.

BASIS OF AWARD: For the purpose of awarding the sale of the Bonds, the interest cost of each bid will be computed by determining, at the interest rate or rates specified therein, the total dollar value of all interest on the Bonds from the date of initial delivery to their respective maturities and adding thereto any discount bid, if any, or subtracting therefrom any premium bid, if any. The District reserves the right to reject any or all bids and to waive any and all irregularities except time of filing. Subject to such rights, the Bonds will be awarded to the bidder whose bid, under the above computation, produces the lowest net effective interest rate to the District. In the event mathematical discrepancies between the interest rate or rates and the interest costs determined therefrom, as both appear on the Official Bid Form, the bid will be solely governed by the interest rates shown on the Official Bid Form.

In order to provide the District with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Initial Purchaser will be required to provide the District with a breakdown of its “underwriting spread” among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTEREST PARTY FORM 1295: New obligation of the District to receive information from winning bidder. Effective January 1, 2016, pursuant to Texas Government Code Section 2252.908 (“the Interested Party Disclosure Act”), the District may not award the Bonds to the winning bidder unless the bidder has submitted a Certificate of Interested Parties Form 1295 (the “Disclosure Form”) to the District prior to such award, as prescribed by the Texas Ethics Commission (“TEC”). In the event that the bidder’s bid for the Bonds is the best bid received, the District, acting through its financial advisor, will promptly notify the bidder. That notification will serve as the conditional verbal acceptance of the bid, and will obligate the bidder to promptly file a completed Disclosure Form, as described below, in order to complete the award.

Process for completing the Disclosure Form. Reference should be made the Disclosure Form, the rules of the TEC with respect to the Disclosure Form (the “Disclosure Rules”) and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm. For purposes of completing the Disclosure Form the Initial Purchaser will need the following information: (a) item 2 – name of governmental entity: Travis County MUD #13 and (b) item 3 – the identification number assigned to this contract by the District: TravisMUD13UTB2016ABid, and a description of the services to be provided under the contract: Purchase of Bonds. The Interested Party Disclosure Act and the Disclosure Rules require a business entity contracting with the District to complete the form at the TEC Internet “portal” that may be accessed at the url set forth above, and then print, sign, notarize and deliver the Disclosure Form by email to the District at jedwards@mphlegal.com. Following the award of the Bonds, the District will acknowledge receipt of the completed Disclosure Form through the TEC website, as required by the law.

Preparations and for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the bidder MUST BE ACKNOWLEDGED BY AND SUBMITTED UNDER A NOTARY STAMP. No exceptions may be made to that requirement. The Interested Party Disclosure Act provides that such acknowledgment is made “under oath and under penalty of perjury.” Consequently, a bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the District, and no award will be made by the District of the Bonds until a completed Disclosure Form is received. The District reserves the right to reject any bid that is not accompanied by a completed Disclosure Form, as described herein. Neither the District nor its consultants have the ability to verify the information included in a Disclosure Form, and neither have an obligation nor undertake responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Bonds should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form promptly upon notification from the District that its bid is the conditional winning bid.

GOOD FAITH DEPOSIT: A Good Faith Deposit, payable to the “Travis County Municipal Utility District No. 13” in the amount of \$88,000, is required. Such Good Faith Deposit shall be a wire transfer, bank cashier’s check or certified check (which is to be retained uncashed by the District pending the Initial Purchaser’s compliance with the terms of the bid and this Notice of Sale and Bidding Instructions). The Good Faith Deposit may be provided to the District via wire transfer (the District will provide wire instructions to the winning bidder), or in the form of a certified or cashier’s check. The Good Faith Deposit will be retained by the District and (a) (i) if the Initial Purchaser utilizes a cashier’s check as its Good Faith Deposit, said cashier’s check will be returned to the Initial Purchaser after delivery of the Bonds, (ii) if the Initial Purchaser utilizes a wire transfer method for its Good Faith Deposit, said wire transfer will be applied to the purchase price at the delivery of the Bonds; or (b) will be retained by the District as liquidated damages if the Initial Purchaser defaults with respect to its purchase of the Bonds in accordance with its bid; or (c) will be returned to the Initial Purchaser if the Bonds are not issued by the District for any reason which does not constitute a default by the Initial Purchaser.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL BOND: Initial delivery (“Initial Delivery”) will be accomplished by the issuance of one initial bond payable in installments (collectively, the “Initial Bond”), either in typed or printed form, in the aggregate principal amount of \$4,400,000, registered in the name of the Initial Purchaser, manually signed by the President or Vice President and Secretary or Assistant Secretary of the Board, or executed by the facsimile signatures of the President or Vice President and Secretary or Assistant Secretary of the Board, and approved by the Attorney General of Texas, and registered and manually signed by the Comptroller of Public Accounts of Texas or his authorized deputy. Upon delivery of the Initial Bond, the Paying Agent/Registrar shall immediately cancel the Initial Bond and one definitive Bond for each maturity will be registered and delivered only to Cede & Co. in connection with DTC’s book-entry-only system. Initial Delivery will be at a corporate trust office of the Paying Agent/Registrar in Austin, Texas. Payment for the Bonds must be made in immediately available funds for unconditional credit to the District, or as otherwise directed by the District. The Initial Purchaser will be given six (6) business days’ notice of the time fixed for delivery of the Bonds. It is anticipated that Initial Delivery can be made on or about November 17, 2016, and subject to the aforementioned notice it is understood and agreed that the Initial Purchaser will accept delivery of and make payment for the Bonds by 10:00 A.M., CDT, on November 17, 2016, or thereafter on the date the Bonds are tendered for delivery, up to and including December 1, 2016. If for any reason the District is unable to make delivery on or before December 1, 2016, then the District shall immediately contact the Initial Purchaser and offer to allow the Initial Purchaser to extend its offer for an additional thirty (30) days. If the Initial Purchaser does not elect to extend its offer within six (6) business days thereafter, then its Good Faith Deposit will be returned, and both the District and the Initial Purchaser shall be relieved of any further obligation.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Initial Purchaser to accept delivery of and pay for the Bonds in accordance with the terms of this Official Notice of Sale. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the Initial Purchaser at the time the Bonds are awarded or as soon thereafter as practicable.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Bonds is subject to the following conditions: issuance of an approving opinion of the Attorney General of Texas, the Initial Purchaser's receipt of typewritten bonds, the legal opinion of Bond Counsel, and the No-Litigation Certificate, all of which are described herein, and the non-occurrence of the events described below under the caption "No Material Adverse Change." In addition, if the District fails to comply with its obligations described in the Preliminary Official Statement, the Initial Purchaser may terminate its contract to purchase the Bonds by delivering written notice to the District within five (5) days thereafter.

LEGAL OPINIONS: The District will furnish without cost to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the unqualified 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 Bonds are valid and binding obligations of the District, payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, and, based upon an examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by governmental immunity, bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principal of equity and to the effect that the interest on the Bonds is excludable from gross income for federal income tax purposes under Statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS."

CERTIFICATION REGARDING OFFERING PRICE OF BONDS: In order to provide the District with information to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") relating to the exclusion of interest on the Bonds from gross income for federal income tax purposes, the Initial Purchaser will be required to complete, execute and deliver to the District (on or before the date of delivery of the Bonds) a certification regarding "issue price" substantially in the form accompanying this Official Notice of Sale. If the Initial Purchaser will not reoffer the Bonds for sale or has not sold a substantial amount of the Bonds of any maturity by the date of delivery, such certificate may be modified in a manner approved by the District. In no event will the District fail to deliver the Bonds as a result of the Initial Purchaser's inability to certify actual sales of Bonds at a particular price prior to delivery. Each bidder, by submitting its bid, agrees to complete, execute and deliver such a certificate by the date of delivery of the Bonds if its bid is accepted by the District. It will be the responsibility of the Initial Purchaser to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain the facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel.

NO-LITIGATION CERTIFICATE: With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the date of delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the best knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

NO MATERIAL ADVERSE CHANGE: The obligations of the District to deliver the Bonds and of the Initial Purchaser to accept delivery of and pay for the Bonds are subject to the condition that to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the conditions of the District from those set forth in or contemplated by the Official Statement, as it may have been supplemented or amended through the date of sale.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The District expects to designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986 and will represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during the calendar year 2016 is not expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations."

GENERAL CONSIDERATIONS

RISK FACTORS: The Bonds involve certain risk factors. Prospective bidders are urged to examine carefully the entire Preliminary Official Statement, made a part hereof, with respect to the investment security of the Bonds. Particular attention should be given to the information set forth therein under the caption “RISK FACTORS.”

RESERVATION OF RIGHTS: The District reserves the right to reject any and all bids and to waive any and all irregularities except time of filing.

NOT AN OFFER TO SELL: This Official Notice of Sale does not alone constitute an offer to sell the Bonds but is merely notice of sale of the Bonds. The invitation for bids on the Bonds is being made by means of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form.

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

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to 15c2-12 of the federal Securities Exchange Act of 1934 (the “Rule”) (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described above. See “DELIVERY AND ACCOMPANYING DOCUMENTS – Conditions to Delivery.” The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the “end of the underwriting period” within the meaning of the Rule), unless the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all the Bonds have been sold to ultimate customers (but not more than 90 days after the date the District delivers the Bonds to the Initial Purchaser). In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

DELIVERY OF OFFICIAL STATEMENTS: The District will furnish Official Statements to the Initial Purchaser (and to each participating member of the underwriting syndicate, if any, of the Bonds, within the meaning of the Rule, designated by the Initial Purchaser), within seven (7) business days after the sale date. The District will also furnish to the Initial Purchaser a like number of any supplement or amendment prepared by the District for dissemination to potential purchasers of the Bonds as described above as well as such additional copies of the Official Statement or any supplement or amendment as the Initial Purchaser may reasonably request as described above in “GENERAL CONSIDERATIONS – Changes to Official Statement”.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE: The offer and sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions. By submission of its bid, the Initial Purchaser represents that the sale of the Bonds in states other than the State of Texas will be made pursuant to exemptions from registration or qualification, or where necessary, the Initial Purchaser will register the Bonds in accordance with the securities laws of the state in which the Bonds are offered or sold. The District agrees to cooperate with the Initial Purchaser, at the Initial Purchaser’s written request and expense, in registering or qualifying the Bonds or obtaining an exemption from registration or qualification (other than filing a consent to service of process in such state), in any state where such action is necessary.

RATING: An application for a rating on the Bonds has been made to Moody’s Investors Service, Inc. (“Moody’s”). The District does not currently have an outstanding rating.

MUNICIPAL BOND INSURANCE: In the event the Bonds are qualified for municipal bond insurance, and the Initial Purchaser desires to purchase such insurance, the cost therefor will be paid by the Initial Purchaser. Any fees to be paid to Moody’s or S&P as a result of said insurance will be paid by the District. It will be the responsibility of the Initial Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Bonds. Any downgrade by Moody’s or S&P of the bond insurance provider shall not relieve the Initial Purchaser of its obligation under the heading “DELIVERY AND ACCOMPANYING DOCUMENTS.”

CONTINUING DISCLOSURE: The District will agree in the Bond Order to provide certain periodic information and notices of certain events in accordance with Rule 15c2-12, as described in the Preliminary Official Statement under “CONTINUING DISCLOSURE OF INFORMATION.” The Initial Purchaser’s obligation to accept and pay for the Bonds is conditioned upon delivery to the Initial Purchaser or its agent of a certified copy of the Bond Order containing the provisions described under such heading.

ADDITIONAL COPIES OF DOCUMENTS: Additional copies of this Official Notice of Sale, the Preliminary Official Statement and the Official Bid Form may be obtained from the Financial Advisor, Garry Kimball, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746.

/s/ Richard Fadal

President, Board of Directors
Travis County Municipal Utility District No. 13

THE DATE OF THIS OFFICIAL NOTICE OF SALE IS OCTOBER 7, 2016.

THIS PAGE LEFT INTENTIONALLY BLANK

OFFICIAL BID FORM

President and Board of Directors
 Travis County Municipal Utility District No. 13
 100 Congress Avenue, Suite 1300
 Austin, Texas 78701

Board Members:

We have read in detail your Official Notice of Sale and accompanying Preliminary Official Statement dated October 7, 2016, relating to the Travis County Municipal Utility District No. 13 (the "District") \$4,400,000 Unlimited Tax Bonds, Series 2016A (the "Bonds"), as made a part hereof. We realize that the Bonds involve certain risk factors, and we have made inspections and investigations as we deem necessary relating to the District and to the investment quality of the Bonds.

For your legally issued Bonds, in the aggregate principal amount of \$4,400,000, we will pay you a price of \$ _____, representing approximately _____% of the par value. Such Bonds mature August 15, in each of the years and in the amounts and interest rates shown below:

| Maturity (8/15) | Principal Amount | Interest Rate | Maturity (8/15) | Principal Amount | Interest Rate |
|-----------------|------------------|---------------|-----------------|------------------|---------------|
| 2019 | \$ 100,000 | % | 2033 | \$ 150,000 | % |
| 2020 | 125,000 | % | 2034 | 150,000 | % |
| 2021 | 125,000 | % | 2035 | 150,000 | % |
| 2022 | 130,000 | % | 2036 | 150,000 | % |
| 2023 | 130,000 | % | 2037 | 150,000 | % |
| 2024 | 130,000 | % | 2038 | 150,000 | % |
| 2025 | 135,000 | % | 2039 | 150,000 | % |
| 2026 | 135,000 | % | 2040 | 150,000 | % |
| 2027 | 140,000 | % | 2041 | 240,000 | % |
| 2028 | 145,000 | % | 2042 | 250,000 | % |
| 2029 | 145,000 | % | 2043 | 265,000 | % |
| 2030 | 145,000 | % | 2044 | 275,000 | % |
| 2031 | 150,000 | % | 2045 | 285,000 | % |
| 2032 | 150,000 | % | | | |

Of the principal maturities set forth in the table above, we have created term bonds as indicated in the following table (which may include multiple term bonds, one term bond or no term bond if none is indicated). For those years which have been combined into a term bond, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term bond maturity date shall mature in such year. The term bonds created are as follows:

| Term Bond Maturing August 15 | Year of First Mandatory Redemption | Principal Amount | Interest Rate |
|------------------------------|------------------------------------|------------------|---------------|
| _____ | _____ | _____ | % |
| _____ | _____ | _____ | % |
| _____ | _____ | _____ | % |
| _____ | _____ | _____ | % |
| _____ | _____ | _____ | % |
| _____ | _____ | _____ | % |

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

| | |
|-----------------------------------|----------|
| TOTAL INTEREST COST FROM 11/17/16 | \$ _____ |
| PLUS DOLLAR AMOUNT OF DISCOUNT | \$ _____ |
| NET INTEREST COST | \$ _____ |
| NET EFFECTIVE INTEREST RATE | _____% |

We are having the Bonds insured by _____ at a premium of \$ _____, **said premium to be paid by the Initial Purchaser.** Any fees to be paid to the rating agency as a result of said insurance **will be paid by the District.**

A wire transfer or a cashiers or certified check to the District in the amount of \$88,000 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Bonds in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the District as complete liquidated damages against us. Please check the box below to designate your Good Faith Deposit option.

The undersigned agrees to complete, execute, and deliver to the District, by the date of delivery of the Bonds, a certificate relating to the "issue price" of the Bonds in the form accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to the District.

We understand the sale of the Bonds has not been registered under the United States Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. We hereby represent the sale of the Bonds in jurisdictions other than Texas will be made only pursuant to exemptions from registration or qualification and that where necessary, we will register or qualify the Bonds in accordance with the securities laws and regulations of the jurisdiction in which the Bonds are offered or sold.

We further understand that the District assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement or other information concerning the District and the Bonds to anyone other than to us.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Syndicate Members:

Name of Initial Purchaser or Manager

Authorized Representative

Phone Number

Signature

Please check one of the options below regarding Good Faith Deposit:

Submit by Wire Transfer

Submit by Bank Cashier's/Certified Check

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by Travis County Municipal Utility District No. 13, this the 19th day of October, 2016.

ATTEST:

Secretary, Board of Directors
Travis County Municipal Utility District No. 13

President, Board of Directors
Travis County Municipal Utility District No. 13

ISSUE PRICE CERTIFICATE

The undersigned hereby certifies as follows with respect to the sale of Travis County Municipal Utility District No. 13 (the "District") \$4,400,000 Unlimited Tax Bonds, Series 2016A (the "Bonds"):

1. The undersigned is the duly authorized representative of the purchaser (the "Initial Purchaser") of the Bonds from the District.
2. All of the Bonds have been offered to members of the public in a bona fide initial offering. For purposes of this Certificate, the term "public" does not include any bondhouses, brokers, dealers, and similar persons or organizations acting in the capacity of underwriters or wholesalers (including the Initial Purchaser or members of the selling group or persons that are related to, or controlled by, or are acting on behalf of or as agents for the undersigned or members of the selling group).
3. Each maturity of the Bonds was offered to the public at a price which, on the date of such offering, was reasonably expected by the Initial Purchaser to be equal to the fair market value of such maturity.
4. Other than the obligations set forth in paragraph 5 hereof (the "Retained Maturity" or "Retained Maturities"), the first price/yield at which a substantial amount (i.e., at least ten (10) percent) of the principal amount of each maturity of the Bonds was sold to the public is set forth below.

| Principal Amount Maturing | Year of Maturity | Offering Price (%/Yield) | Principal Amount Maturing | Year of Maturity | Offering Price (%/Yield) |
|---------------------------|------------------|--------------------------|---------------------------|------------------|--------------------------|
| \$ 100,000 | 2019 | % | \$ 150,000 | 2033 | % |
| 125,000 | 2020 | % | 150,000 | 2034 | % |
| 125,000 | 2021 | % | 150,000 | 2035 | % |
| 130,000 | 2022 | % | 150,000 | 2036 | % |
| 130,000 | 2023 | % | 150,000 | 2037 | % |
| 130,000 | 2024 | % | 150,000 | 2038 | % |
| 135,000 | 2025 | % | 150,000 | 2039 | % |
| 135,000 | 2026 | % | 150,000 | 2040 | % |
| 140,000 | 2027 | % | 240,000 | 2041 | % |
| 145,000 | 2028 | % | 250,000 | 2042 | % |
| 145,000 | 2029 | % | 265,000 | 2043 | % |
| 145,000 | 2030 | % | 275,000 | 2044 | % |
| 150,000 | 2031 | % | 285,000 | 2045 | % |
| 150,000 | 2032 | % | | | |

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

| Principal Amount Maturing | Year of Maturity | Offering Price (%/Yield) | Principal Amount Maturing | Year of Maturity | Offering Price (%/Yield) |
|---------------------------|------------------|--------------------------|---------------------------|------------------|--------------------------|
| \$ | 2019 | % | \$ | 2033 | % |
| | 2020 | % | | 2034 | % |
| | 2021 | % | | 2035 | % |
| | 2022 | % | | 2036 | % |
| | 2023 | % | | 2037 | % |
| | 2024 | % | | 2038 | % |
| | 2025 | % | | 2039 | % |
| | 2026 | % | | 2040 | % |
| | 2027 | % | | 2041 | % |
| | 2028 | % | | 2042 | % |
| | 2029 | % | | 2043 | % |
| | 2030 | % | | 2044 | % |
| | 2031 | % | | 2045 | % |
| | 2032 | % | | | |

6. Please choose the appropriate statement:
 The Initial Purchaser will not purchase bond insurance for the Bonds.
 The Initial Purchaser will purchase bond insurance from _____ (the "Insurer") for a fee/premium of \$ _____ (the "Fee"). The Fee is a reasonable amount payable solely for the transfer of credit risk

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

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

EXECUTED and DELIVERED this _____ day of _____, 2016.

Name of Purchaser or Manager

By: _____

Title: _____

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 7, 2016

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE THEREOF, SUBJECT TO THE MATTERS DESCRIBED UNDER "TAX MATTERS" HEREIN INCLUDING THE ALTERNATIVE MINIMUM TAX ON CORPORATIONS.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS."

NEW ISSUE – Book-Entry Only

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

\$4,400,000

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
(A political subdivision of the State of Texas located within Travis County)
UNLIMITED TAX BONDS, SERIES 2016A

Dated Date: October 15, 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 Travis County Municipal Utility District No. 13 (the "District") and are not obligations of the State of Texas ("State"), Travis County, the Lake Travis Independent School District, the City of Lakeway (the "City") 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 all 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" or "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds will accrue from the date of initial delivery and will be payable each August 15 and February 15, commencing August 15, 2017, until maturity or prior redemption. Interest on the Bonds accrues from the date of initial delivery and will be payable on the basis of a 360-day year consisting 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 pay for the items shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS."

CUSIP PREFIX: 89440C
MATURITY SCHEDULE
See Page 2

Bonds maturing on and after August 15, 2025, 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, 2024, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term bonds. See "THE BONDS – Optional Redemption."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds through DTC is expected on November 17, 2016.

BIDS DUE WEDNESDAY, OCTOBER 19, 2016 BY 10:00 A.M. CDT

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

| 8/15 Maturity | Principal Amount | Interest Rate | Initial Yield ^(a) | CUSIP Numbers ^(b) |
|------------------|---------------------|------------------|---------------------------------|---------------------------------|
| 2019 | \$ 100,000 | | | |
| 2020 | 125,000 | | | |
| 2021 | 125,000 | | | |
| 2022 | 130,000 | | | |
| 2023 | 130,000 | | | |
| 2024 | 130,000 | | | |
| 2025 | 135,000 | | | |
| 2026 | 135,000 | | | |
| 2027 | 140,000 | | | |
| 2028 | 145,000 | | | |
| 2029 | 145,000 | | | |
| 2030 | 145,000 | | | |
| 2031 | 150,000 | | | |
| 2032 | 150,000 | | | |
| 2033 | 150,000 | | | |
| 2034 | 150,000 | | | |
| 2035 | 150,000 | | | |
| 2036 | 150,000 | | | |
| 2037 | 150,000 | | | |
| 2038 | 150,000 | | | |
| 2039 | 150,000 | | | |
| 2040 | 150,000 | | | |
| 2041 | 240,000 | | | |
| 2042 | 250,000 | | | |
| 2043 | 265,000 | | | |
| 2044 | 275,000 | | | |
| 2045 | 285,000 | | | |

(Interest to accrue from the date of initial delivery)

- (a) Initial yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which subsequently may be changed.
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT 4
SALE AND DISTRIBUTION OF THE BONDS..... 4
MUNICIPAL BOND RATING AND INSURANCE..... 5
OFFICIAL STATEMENT SUMMARY 6
SELECTED FINANCIAL INFORMATION (UNAUDITED)..... 8
RISK FACTORS 9
THE BONDS 16
BOOK-ENTRY-ONLY SYSTEM 21
WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS 22
USE AND DISTRIBUTION OF BOND PROCEEDS 24
THE DISTRICT..... 25
THE DEVELOPER 26
MANAGEMENT OF THE DISTRICT 27
THE SYSTEM 27
DEBT SERVICE REQUIREMENTS 28
TAX DATA 31
TAXING PROCEDURES 33
LEGAL MATTERS..... 36
TAX MATTERS 36
PREPARATION OF OFFICIAL STATEMENT 38
CONTINUING DISCLOSURE OF INFORMATION 39
MISCELLANEOUS 41

AERIAL BOUNDARY MAP
PHOTOGRAPHS OF THE DISTRICT
APPENDIX A—FORM OF BOND COUNSEL’S OPINION
APPENDIX B—AUDITED FINANCIAL STATEMENT OF THE DISTRICT

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and 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.

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

This Official Statement 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 Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701, 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 Initial Purchaser and thereafter only as specified in "PREPARATION OF OFFICIAL STATEMENT – Updating the Official Statement."

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

SALE AND DISTRIBUTION OF THE BONDS

AWARD OF THE BONDS . . . After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the "Initial Purchaser") bearing the interest rates shown on the inside cover page hereof, at a price of approximately _____% of the par value thereof which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the "IBA" method).

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

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

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

SECURITIES LAWS . . . No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein 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.

MUNICIPAL BOND RATING AND INSURANCE

An application for a rating on the Bonds has been made to Moody's Investors Service, Inc. ("Moody's"). The District does not currently have an underlying rating.

An application has been made to any municipal bond insurance company for qualification of the Bonds for municipal bond insurance. In the event the Bonds are qualified for municipal bond insurance, and the Initial Purchaser desires to purchase such insurance, the cost therefor will be paid by the Initial Purchaser. Any fees to be paid to Moody's or S&P as a result of said insurance will be paid by the District. It will be the responsibility of the Initial Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Bonds.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

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

Description The District is a political subdivision of the State of Texas, created by order of the Texas Natural Resource Conservation Commission, predecessor to the Texas Commission on Environmental Quality (“TCEQ”), on June 18, 1999, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 886.094 acres of land of which 496.164 acres are developable. See “THE DISTRICT.”

Location The District is located approximately 20 miles northwest of the central downtown business district of the City of Austin and lies partially within the extraterritorial jurisdiction and partially within the corporate limits of the City of Lakeway and wholly within the boundaries of the Lake Travis Independent School District and Travis County. The District is located on the west side of Farm to Market Road 620 with access from Lakeway Blvd. and State Highway 71. See “AERIAL BOUNDARY MAP.”

The Developer Portions of the land comprising the District were acquired by Las Ventanas Land Partners, Ltd. in late 2004, with other portions acquired by JH West Land Ventures, Ltd. in early 2006.

Rough Hollow Development, Ltd. (the “Developer”), which was created to acquire and develop the property in the District and fund development costs, is the primary developer of the land in the District. The Developer is a Texas limited partnership. The Developer’s general partner is JHLV GP, Inc., a Texas corporation, and its limited partners are John Scardino, Haythem Dawlett, and Rough Hollow Development Holdings, LLC.

The Developer acquires portions of the land within the District from Las Ventanas Land Partners, Ltd. and JH West Land Ventures, Ltd., in installments, prior to arranging development financing and commencing development of such land, which has been and is being developed as single-family residential subdivisions, the majority of which is known as Lakeway Highlands. See “THE DISTRICT – Status of Development”.

Status of Development As of August 7, 2016, five sections within the District, consisting of 221 single-family residential lots on 129.159 acres, had been developed with utilities, including water, wastewater and drainage improvements, and paved internal roads. A total of 91 homes were complete and occupied; 6 homes were complete and vacant, 28 homes were under construction, and 96 lots were available for home construction as of this same date. There are approximately 381.577 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities, including an approximately 10-acre school site. Homes within the District have sold from approximately \$470,000 to in excess of \$1,000,000 and are currently being marketed for sale from approximately \$470,000 to approximately \$1,500,000, with square footage ranging from approximately 2,000 to in excess of 4,800. See “THE DISTRICT – Status of Development.”

Homebuilders According to the Developer, the following homebuilders are currently active within the District: Village Builders, Drees Custom Homes, LP, Highland Homes-Austin, Ltd. and Westin Homes and Properties, LP. Additionally, the Developer has advised the District that the following homebuilders have constructed homes in the District: MHI Central Texas, LLC (Coventry Homes), Canyonside Ventures LLC, and various custom homebuilders. See “THE DEVELOPER – Homebuilders.”

Payment Record The District has never defaulted on the payment of its outstanding debt.

THE BONDS

Description \$4,400,000 Unlimited Tax Bonds, Series 2016A (the “Bonds”) are being issued pursuant to an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District’s Board of Directors (the “Board”) as fully registered bonds. The Bonds are scheduled to mature as serial Bonds on August 15 in the years 2019 through and including 2045. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds will accrue from the date of initial delivery and will be payable August 15, 2017, and each February 15 and August 15 thereafter, until the earlier of maturity or redemption. See “THE BONDS.”

| | |
|--|---|
| <i>Book-Entry-Only</i> | DTC 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 bond certificate will be issued for each maturity of the Bonds and will be deposited with DTC. |
| <i>Redemption</i> | The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2025, prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 15, 2024, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. See "THE BONDS – Optional 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). Additionally, the Bonds may be subject to mandatory sinking fund redemption in the event the Initial Purchaser elects to aggregate two or more maturities as term bonds. See "THE BONDS – Optional Redemption." |
| <i>Use of Proceeds</i> | Proceeds of the Bonds will be used to pay for the items shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." |
| <i>Authority for Issuance</i> | The Bonds are the third series of bonds issued out of an aggregate of \$113,040,000 principal amount of unlimited tax bonds authorized by the District's voters on May 10, 2008 for the purpose of purchasing and constructing water, wastewater and storm drainage system. The Bonds are issued by the District pursuant to an order of the TCEQ; the terms and conditions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; the election held within the District on May 10, 2008; Chapters 49 and 54 of the Texas Water Code, as amended; and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. After the issuance of the Bonds, the District will have \$102,365,000 authorized but unissued bonds from the May 10, 2008 election. The District is also authorized to issue refunding bonds in a principal amount of one and one-half times the principal amount of water, wastewater and drainage bonds issued, and \$53,055,000 of unlimited tax bonds for parks and recreation purposes, none of which will be used in this issuance. See "RISK FACTORS – Future Debt" and "THE BONDS – Authority for Issuance" and "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 the City of Lakeway, the Lake Travis Independent School District, Travis County, 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 does not currently have an underlying rating. |
| <i>Municipal Bond Insurance</i> | In the event the Bonds are qualified for municipal bond insurance, and the Initial Purchaser desires to purchase such insurance, the cost therefor will be paid by the Initial Purchaser. Any fees to be paid to Moody's or S&P as a result of said insurance will be paid by the District. It will be the responsibility of the Initial Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Bonds. |
| <i>Qualified Tax-Exempt Obligations</i> | The District expects to designate the Bonds as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions." |
| <i>Bond Counsel and Disclosure Counsel</i> | McCall, Parkhurst & Horton L.L.P., Austin, Texas. See "MANAGEMENT OF THE DISTRICT" and "LEGAL MATTERS." |
| <i>General Counsel</i> | Armbrust & Brown, PLLC, Austin, Texas. |

RISK FACTORS

The purchase and ownership of the Bonds are subject to special risk factors 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."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

| | | |
|--|------------------|--------|
| 2013 Certified Taxable Assessed Valuation | \$ 28,026,479 | (a) |
| 2014 Certified Taxable Assessed Valuation | 43,385,114 | (a) |
| 2015 Certified Taxable Assessed Valuation | 64,174,801 | (a) |
| 2016 Certified Taxable Assessed Valuation | 84,338,014 | (a) |
| 2017 Preliminary Taxable Assessed Valuation (as of September 1, 2016)..... | 94,244,836 | (a) |
| | | |
| Gross Direct Debt Outstanding (after issuance of the Bonds)..... | \$ 10,675,000 | (b) |
| Estimated Overlapping Debt..... | <u>2,615,394</u> | (c) |
| Gross Direct Debt and Estimated Overlapping Debt | \$ 13,290,394 | |
| | | |
| Ratios of Gross Direct Debt to: | | |
| 2016 Certified Taxable Assessed Valuation | | 12.66% |
| | | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2016 Certified Taxable Assessed Valuation | | 15.76% |
| | | |
| General Operating Fund Balance as of August 17, 2016..... | \$ 1,137,487 | |
| Debt Service Fund Balance as of August 17, 2016..... | \$ 738,095 | |
| | | |
| 2015 District Debt Service Tax Rate | \$ 0.1000 | |
| 2015 District Maintenance Tax Rate..... | \$ 0.6725 | |
| | | |
| 2015 Tax Rates for Overlapping Entities: | | |
| Travis County | \$ 0.4946 | |
| City of Lakeway | 0.1748 | |
| Travis County ESD #6..... | 0.1000 | |
| Travis County Healthcare District | 0.1290 | |
| Lake Travis Independent School District..... | <u>1.4075</u> | |
| Total Projected Overlapping Tax Rate..... | \$ 3.0784 | |
| | | |
| Projected Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds (2016-2045) | \$ 595,042 | (b) |
| Projected Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds (2031) | \$ 691,406 | (b) |
| | | |
| Tax Rates Required to Pay Projected Average Annual Debt Service (2016-2045) at a 97.5% Collection Rate | | |
| Based upon 2016 Certified Taxable Assessed Valuation..... | | 0.7237 |
| | | |
| Tax Rates Required to Pay Projected Maximum Annual Debt Service (2031) at a 97.5% Collection Rate | | |
| Based upon 2016 Certified Taxable Assessed Valuation..... | | 0.8409 |
| | | |
| Status of Development as of August 7, 2016: | | |
| Homes Completed and Occupied..... | 91 | |
| Vacancies..... | 6 | |
| Homes Under Construction or Owned by a Homebuilder | 28 | |
| Lots Available for Home Construction..... | 96 | |
| Developed Acreage..... | 129.159 | |
| Undeveloped but developable acreage..... | 381.577 | (d) |
| Estimated Population | 319 | (e) |

- (a) As provided by the Travis Central Appraisal District (the "Appraisal District" or "TCAD").
- (b) Includes the Bonds. See "DEBT SERVICE REQUIREMENTS."
- (c) See "DEBT SERVICE REQUIREMENTS – Estimated Overlapping Debt."
- (d) Includes approximately 10-acre school site.
- (e) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT
\$4,400,000
TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
(A political subdivision of the State of Texas located within Travis County)
UNLIMITED TAX BONDS, SERIES 2016A

This Official Statement provides certain information in connection with the issuance by Travis County Municipal Utility District No. 13 (the "District") of its \$4,400,000 Unlimited Tax Bonds, Series 2016A (the "Bonds").

The Bonds are issued pursuant to the Texas Constitution, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District (the "Board"), an order of the Texas Commission on Environmental Quality (the "TCEQ") and an election held within the District on May 10, 2008.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, 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 Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

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

RISK FACTORS

GENERAL . . . The Bonds are obligations solely of the District and are not obligations of the City of Lakeway, the Lake Travis Independent School District, Travis County, 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 "RISK FACTORS – Tax Collections Limitations and Foreclosure Remedies." The collection by the District of delinquent taxes owed to it and the enforcement by registered owners ("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

Economic Factors and Interest Rates: A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots which are currently being marketed by the Developer for sale to homebuilders for the construction of single-family residences. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics and prospects 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 such values and thus increase the rate of taxation in the District.

Interest rates and the availability of mortgage and development funding have a direct impact on construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. 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 20 miles northwest of the central downtown business district of the City 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 economies. See "Regional Economics" below.

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

Competition: The demand for and construction of single-family homes in the District could be affected by competition from other residential developments in western Travis County, many of which have a more mature development status. In addition to competition for new home sales with other developments, there are numerous previously-owned homes in more established neighborhoods 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 Developer 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 additional building and marketing programs by the Developer and homebuilders will be implemented in the District or, if implemented, will be successful.

DROUGHT CONDITIONS . . . Central Texas, like other areas of the State, is subject to drought conditions. The District receives its raw water supply from the Lower Colorado River Authority and has been allocated a sufficient raw water supply for full build-out of the District; however, in a drought, this raw water supply could be restricted or curtailed. Treated water services to the District are currently provided in amounts sufficient to service the residents of the District; however, if drought conditions emerge, the available water supplies as well as water usage, District revenues, expenses and rates could be impacted. See “WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS”. The District is also closely situated to Lake Travis and low lake levels due to drought conditions could impact the marketability of lots and homes within the District as well as the assessed valuation of such lots and homes.

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 \$84,338,014. After issuance of the Bonds, the projected maximum debt service requirement will be \$691,406 (2031), and the projected average annual debt service requirement will be \$595,042 (2016-2045, inclusive). See “DEBT SERVICE REQUIREMENTS.” 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 \$0.8409 and \$0.7237 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 ten principal taxpayers in the District represented \$24,557,380 or 29.12% of the District’s 2016 Certified Taxable Assessed Valuation of \$84,338,014. The Developer and related entities represented \$13,581,277 or 16.10% of the District’s 2016 Certified Taxable Assessed Valuation, and entities concentrated in the homebuilding industry represented \$5,659,472 or 6.71% of the District’s 2016 Certified Taxable Assessed Valuation. If the Developer was to default in the payment of taxes in an amount which exceeds the District’s debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its debt service fund. See “Tax Collection Limitations and Foreclosure Remedies” in this section, “TAX DATA – Principal Taxpayers,” and “TAXING PROCEDURES – Levy and Collection of Taxes.”

The Developer has informed the Board that its current plan is to continue marketing the remaining developed lots in the District to homebuilders. 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 its 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 381.577 net developable acres of land within the District that have not been provided with water, wastewater and storm drainage and detention facilities including an approximately 10-acre school site. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT – Land Use.”

DEVELOPMENT AND HOME CONSTRUCTION IN THE DISTRICT . . . As of August 7, 2016, approximately 96 lots were available for home construction. Failure of the Developer or homebuilders 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 Order are limited. Although state law and the Bond Order 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. State law and the Bond Order do not provide for acceleration of maturity of the Bonds. Additionally, the Bond Order does not appoint 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. See "THE BONDS – Remedies in Event of Default."

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 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 governmental immunity, 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 municipal utility 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. Following the issuance of the Bonds, the District will owe the Developer approximately \$896,000 for eligible facilities constructed to date, which is expected to be financed with future bond issues. A total of \$113,040,000 principal amount of unlimited tax bonds have been authorized by the District's voters pursuant to the May 10, 2008 election and, after the issuance of the Bonds, \$102,365,000 of unlimited tax bonds will remain authorized but unissued for purchasing and constructing a water, wastewater and drainage system. It is anticipated that such bonds will be issued to reimburse the Developer for eligible facilities constructed to date and to finance facilities which have not yet been constructed (see "WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS"). 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 and issue park and recreational bonds. 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."

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 municipal utility district or other type of 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 TCEQ may impact new industrial, commercial and residential development in the Austin area. Under the Clean Air Act ("CAA") Amendments of 1990, the five-county "Austin Area" – Travis, Hays, Williamson, Bastrop, and Caldwell counties – has recently been redesignated by the EPA as an attainment area. The Austin Area entered into an early action compact (EAC) with the TCEQ and EPA which demonstrates attainment and maintenance of the 8-hour ozone standard. EACs allow regions that are in nonattainment or nearnonattainment 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.

Water Quality Issues. Water supply and discharge regulations that the District may be required to comply with include: (1) public water supply systems (2) waste water discharges from treatment facilities and (3) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the Safe Drinking Water Act, potable (drinking) water provided by the District to more than twenty-five (25) people or fifteen (15) service connections will be subject to extensive federal and state regulation as a public water supply system, which include, among other requirements, frequent sampling and analyses. Further, EPA adopted new drinking water rules in 2006 (the Stage 2 Disinfectants and Disinfection Byproducts Rule; the Long Term 2 Enhanced Surface Water Treatment Rule, and the Ground Water Rule), which the TCEQ proposed adopting in July 2007. When these rules are adopted, they will affect all public water systems which will have to make any improvements necessary to adhere to the new requirements. Additionally, the EPA has been charged with establishing maximum contaminant levels (MCLs) for potential drinking water contaminants (both naturally occurring and anthropogenic) such as arsenic, lead, radon, and disinfection by-products (e.g. chlorine). Additional or more stringent regulations or requirements pertaining to these and other drinking water contaminants in the future could require installation of more costly treatment facilities.

Operations of the sewer facilities serving the District 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 Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. 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 the District are also potentially subject to requirements and restrictions under the Clean Water Act regarding the use and alteration of wetland areas that are within the “waters of the United States.” The District must obtain a permit from the U.S. Army Corps of Engineers if operations of the District require that wetlands be filled, dredged, or otherwise altered.

STORM WATER QUALITY. . . . Operations of the District are also potentially subject to stormwater discharge permitting requirements as set forth under the Clean Water Act. The TCEQ adopted by reference the vast majority of the EPA regulations relating to stormwater discharges and currently has issued a general permit for stormwater discharges associated with industrial activities and recently adopted two general permits for stormwater discharges associated with construction activities and municipal separate storm sewer systems effective August 13, 2007. The District may be potentially subject to stormwater discharge permitting requirements under each of these general permitting programs. Moreover, the District may be required to develop and implement stormwater pollution prevention plans and stormwater management plans. The District could incur substantial costs to develop and implement such plans 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.

MARKETABILITY OF THE BONDS . . . The District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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.

DEMAND FOR AND FLUCTUATION OF ASSESSED VALUATION OF CERTAIN HOUSING PRODUCTS . . . As reflected in “THE DEVELOPER – Description of the Developer” herein, the housing products completed and currently planned for in the District consist of single-family homes and detached duplex units/patio homes with anticipated prices ranging from \$470,000 to over \$1,000,000. Due to the price ranges of the housing currently under construction and planned within the District, the demand and fluctuation of assessed valuation for such housing products may be more adversely affected by economic conditions than other lower cost housing products within the Austin area. Due to the higher than normal average home values within the District, there is a greater likelihood that homeowners will annually challenge TCAD’s appraisals.

NO REQUIREMENT TO BUILD ON DEVELOPED LOTS . . . There is currently no requirement that individuals or other purchasers of developed lots within the District commence or complete construction of improvements within any particular time period.

Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

CONTINUING COMPLIANCE WITH CERTAIN COVENANTS . . . Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

ANNEXATION . . . As originally created, the District was located within the extraterritorial jurisdiction of the City of Lakeway (the “City”). The Resolution adopted by the City Council of the City on August 17, 1998, consenting to the creation of the District (the “Consent Resolution”) required that the District consent to the City’s annexation of less than all of the land within the District. The City has taken action to annex portions of the District in phases as development occurs. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council. If an entire district is annexed by a city, the annexing city is required to assume all debt obligations of the district; however, based on the City’s past practice and the Consent Resolution, the City may not intend to annex the entire District and assume its outstanding debt. The District makes no representation as to whether the City will continue to annex portions of the District or whether the City will ever annex the entire District and assume the District’s outstanding debt and/or dissolve the District.

TAX EXEMPT PROPERTY STRATEGIC HOUSING FINANCE CORPORATION OF TRAVIS COUNTY . . . There is the potential for property within the District to be acquired by the Strategic Housing Finance Corporation of Travis County (“SHFC”), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the “Texas Housing Finance Corporations Act”). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax exempt; therefore, during the thirty nine (39) month term of the lease, during which SHFC owns the home, that property is removed from the tax rolls of the District. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax exempt indefinitely. Presently, there are no homes within the District that are owned by SHFC and have been removed from the tax rolls. Because the SHFC program is between itself and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether

SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

BOND INSURANCE RISKS . . . The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. The purchase of bond insurance, if available, will be at the option and expense of the Initial Purchaser. If a bond insurance policy is purchased by the Initial Purchaser, provided below are risk factors relating to bond insurance. In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer’s consent may be required in connection with amendments to any applicable bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See description of “MUNICIPAL BOND RATINGS” and herein.

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

Neither the District nor the Initial Purchaser have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

OVERLAPPING AND COMBINED TAX RATES . . . The overlapping tax rate for the District reflects a composite overlapping tax rate including the District’s debt service and/or maintenance taxes of \$3.0784 per \$100 of assessed valuation. A projected maximum District tax rate of \$0.8409 per \$100 of assessed valuation would be required if no further growth were to occur within the District. See “DEBT SERVICE REQUIREMENTS – Overlapping Taxes.” However, the tax rate that may be required to service debt on any bonds issued by the District is subject to numerous uncertainties such as the growth of taxable values within the boundaries of the District, the amount of direct Unlimited Tax and Revenue Bonds issued by the District, regulatory approvals, construction costs and interest rates. There can be no assurances that composite tax rates imposed by overlapping jurisdictions on property within the District will be competitive with the tax rates of competing projects in the Austin metropolitan area. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values within the District and the investment quality or security of the Bonds could be adversely affected.

The current TCEQ rules regarding the feasibility of a bond issue for a utility district in Travis County limit the projected combined total tax rate of entities levying a tax for water, wastewater and drainage to \$1.20. The projections for the District are consistent with the rules of the TCEQ. If the total combined tax rate of the District should ever exceed \$1.20, the District could be prohibited under rules of the TCEQ from selling additional bonds.

The District may issue additional debt which may change the projected and actual tax rates in the future, which changes may adversely affect future growth and which could affect the ability of the District to issue debt in the future.

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

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

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

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

GOVERNMENTAL APPROVAL . . . As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” The TCEQ approved the issuance of the Bonds by an order signed on August 31, 2016 (the “TCEQ Order”). In addition, the Attorney General of Texas must also approve the legality of the Bonds prior to their delivery.

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

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

THE BONDS

GENERAL DESCRIPTION . . . The Bonds will bear interest from the date of initial delivery and will mature on August 15 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will accrue from the date of initial delivery, will be paid on August 15, 2017 and each February 15 and August 15 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent for the Bonds is BOKF, NA, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”).

OPTIONAL REDEMPTION . . . The Bonds maturing on and after August 15, 2025 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 15, 2024, or on any date thereafter, in integral multiples of \$5,000, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. Additionally, the Bonds may be subject to mandatory redemption if the Initial Purchaser elects to aggregate two or more maturities as term Bonds.

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

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

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

DTC REDEMPTION PROVISION . . . The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to the DTC Participants. Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

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

PAYMENT . . . Principal of the Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the “Designated Payment/Transfer Office”). Interest on the Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first-class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city

where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

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

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

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

AUTHORITY FOR ISSUANCE . . . At a bond election held within the District on May 10, 2008, the voters of the District authorized the issuance of \$113,040,000 principal amount of unlimited tax new money bonds. The District is also authorized to issue refunding bonds in the amount of one and one-half times the principal amount of water, wastewater and drainage bonds issued and \$53,055,000 of unlimited tax bonds for parks and recreation purposes, none of which will be issued with this issuance. See "Issuance of Additional Debt" below.

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State.

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

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

Under Texas law, the District may be annexed and dissolved by Lakeway without the consent of the District or its residents. If the entire District is annexed, Lakeway must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate; however, although the City has taken action to annex portions of the District in phases as

development occurs, based on the City's past practice and the Consent Resolution, the City may not intend to annex the entire District and assume its outstanding debt. No representation is made concerning the likelihood of annexation or dissolution or the ability of Lakeway to make debt service payments on the Bonds should dissolution occur. See "RISK FACTORS – Annexation."

The Bonds are obligations solely of the District and are not obligations of the State of Texas, Travis County, the City of Lakeway, Lake Travis ISD, or any entity other than the District.

PAYMENT RECORD . . . The Bonds constitute the third installment of bonds issued by the District. The District has previously issued \$3,000,000 Unlimited Tax Bonds, Series 2015 and \$3,275,000 Unlimited Tax Bonds, Series 2016 (the "Outstanding Bonds"). The District has not defaulted on the payment of principal of or interest on the Outstanding Bonds. See "DEBT SERVICE REQUIREMENTS."

FLOW OF FUNDS . . . The Bond Order creates or confirms the creation by the District of a Debt Service Fund and a Capital Projects Fund. Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds. Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

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

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

PAYING AGENT/REGISTRAR . . . Principal of and semiannual interest on the Bonds will be paid by BOKF, NA, having an office for payment in Austin, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

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

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

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

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

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

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

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

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

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

ISSUANCE OF ADDITIONAL DEBT . . . The District may issue additional ad valorem tax bonds and long-term revenue bonds and notes, 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 \$113,040,000 principal amount of bonds for constructing and/or acquiring a waterworks, sanitary sewer and storm sewer systems refunding bonds in the amount of one and one-half times the principal amount of the water, wastewater and drainage bonds issued, and could authorize additional amounts. After the issuance of the Bonds, \$102,365,000 of unlimited tax bonds will remain authorized but unissued for the purpose of purchasing and constructing a water, wastewater and drainage system. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds.

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

According to the Developer, following the issuance of the Bonds, the District will remain obligated to reimburse the Developer approximately \$896,000 for eligible facilities serving the existing development within the District. The District expects to submit bond applications to the TCEQ for the sale of additional bonds (excluding the Bonds) to satisfy its obligation to pay the Developer for such facilities. The District intends to issue such bonds in approximately annual installments, subject to the pace of development and timely TCEQ approval. It is also anticipated that additional bonds will be issued to finance facilities which have yet to be constructed. See “RISK FACTORS – Future Debt.”

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

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

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.

ANNEXATION . . . The District lies both within the extraterritorial jurisdiction and the corporate limits of the City. Under Texas law, the District may be annexed by the City without the District’s consent. See “RISK FACTORS – Annexation.”

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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.

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.

WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS

The District is being developed along with Travis County Municipal Utility District No. 12 ("MUD 12") and Travis County Municipal Utility District No. 11 ("MUD11") (collectively, the "Participating Districts"). The District is provided wastewater service from Lakeway Municipal Utility District ("Lakeway MUD") pursuant to the "Wholesale Wastewater Capacity and Services Agreement" dated effective July 29, 2015 between MUD 12 and Lakeway MUD (the "Lakeway MUD Agreement"). See "THE SYSTEM." The District, together with MUD 12 and MUD 11, has purchased a combined total of 400,000 gallons per day ("gpd") of wastewater treatment capacity in the Lakeway MUD S-5 Wastewater Treatment Plant. Lakeway MUD's S-5 Wastewater Treatment Plant operates under TCEQ Permit No. WQ0011495006 which currently authorizes disposal of up to 0.40 MGD of treated effluent via irrigation. The Lakeway MUD Agreement provides that Lakeway MUD will expand its S-5 Wastewater Treatment Plant as necessary to provide the Participating Districts with a total capacity of 400,000 gpd. All costs associated with such expansions will be paid by Lakeway MUD.

Pursuant to the "Third Amendment to Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services" effective August 19, 2015 (the "3rd Amendment") the District, MUD 12 and MUD 11 have allocated the 400,000 gpd wastewater capacity and prorated costs between the Participating Districts. The 3rd Amendment reserves the initial 94,800 gpd of capacity to MUD 11, and the additional purchased capacity of 305,200 gpd (considered "Highlands Shared Capacity") between the District, MUD 12 and MUD 11 as provided in the amended and restated "Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services" dated April 5, 2010 (the "MOU"). The MOU anticipates that the Participating Districts will negotiate and enter into a more detailed shared facilities agreement regarding these matters in the future.

The Lakeway MUD Agreement provides 400,000 gallons per day of capacity in the Lakeway MUD S-5 Wastewater Treatment Plant for service to the Participating Districts. Based upon the current measured average daily wastewater flows from the Participating Districts, it is contemplated that the Participating Districts' contractually reserved capacity in the Lakeway MUD S-5 Wastewater Treatment Plant will be sufficient to provide wastewater service for the full buildout of the Participating Districts.

If additional wastewater treatment infrastructure improvements were to become necessary at some time in the future in order to provide the 400,000 gallons per day to the Participating Districts, Lakeway MUD is contractually obligated to construct, at no cost to the Participating Districts, all improvements required in order to provide 400,000 gallons per day of wastewater capacity to the Participating Districts. If Lakeway MUD failed to do so, the District's ability to provide service could be adversely affected. Further, if the contractually reserved capacity is not sufficient for full build-out of the Participating Districts, then, unless the Participating Districts obtain an alternative source of wastewater treatment to meet their additional service requirements, they would be required to purchase additional capacity from Lakeway MUD, which could adversely affect the timing of the development and costs.

The Participating Districts receive their raw water supply from the Lower Colorado River Authority ("LCRA") under the terms of a Firm Water Contract dated September 25, 2008 that has been entered into by MUD 12 on behalf of the Participating Districts (the "Raw Water Contract").

The MOU, as amended, describes the Participating Districts' agreement to, among other things, (i) share the 1,680 acre feet of raw water supply provided by LCRA under the terms of the Raw Water Contract, (ii) jointly construct and operate certain water and wastewater facilities which will serve Lakeway Highlands; and (iii) share the wastewater treatment capacity provided by Lakeway MUD under the Lakeway MUD Agreement. Treatment of raw water necessary to serve Lakeway Highlands, including all of the land within the District, is provided through the West Travis County Water System under a Wholesale Water Services Agreement dated effective October 20, 2009, which MUD 12 originally entered with the LCRA on behalf of the Participating Districts (the "LCRA Water Services Contract"). On March 19, 2012, the LCRA transferred certain rights and obligations related to the West Travis County Water System, including the LCRA Water Services Contract, to the West Travis County Public Utility Agency (the "PUA"), and the PUA is now providing wholesale water treatment and delivery services to Lakeway Highlands under the terms of the LCRA Water Services Contract. The PUA has purchased the West Travis County Water System from the LCRA under the terms of an installment purchase contract.

Effective January 1, 2014, the PUA implemented changes in its rate methodology that have significantly increased the rates charged by the PUA for wholesale water services to the District and the other Participating Districts and are projected to continue to increase such rates in the future. On March 6, 2014, MUD 12, as the managing district under the MOU, filed an administrative appeal on behalf of the Participating Districts before the Public Utility Commission of Texas (the "PUCT") appealing a change of wholesale water rates implemented by the PUA under the LCRA Water Services Contract. MUD 12's appeal sought to have the PUCT declare that the rates for wholesale water service charged to the Participating Districts and the rate methodology used by the PUA to set the rates adversely affected the public interest, and to ultimately require the PUA to submit to the rate setting authority of the PUCT for a determination of just and reasonable rates. After a contested case hearing and based on a recommendation by an Administrative Law Judge, the PUCT concluded that the rate and methodology were not adverse to the public interest and denied the MUD 12's appeal. MUD 12, on behalf of the Participating Districts, timely filed a motion for rehearing which the PUCT declined to consider. On February 4, 2016, MUD 12, on behalf of the Participating Districts, filed a petition asking the Travis County District Court to review, reverse, and remand the PUCT order. The petition is currently pending in the 250th Judicial District.

On May 26, 2016, MUD 12, on behalf of the Participating Districts, filed suit against the PUA in *Travis County Municipal Utility District No. 12 v. West Travis County Public Utility Agency*; Cause No. D-1-GN-16-002274; in the District Court of Travis County, Texas, 201st Judicial District. This litigation asserts a breach of contract claim against the PUA for excessive and improper charges under the LCRA Water Services Contract. The petition alleges that rates charged the Participating Districts by the PUA are in excess of the cost of services being provided and in breach of the LCRA Water Services Contract.

If MUD 12's rate challenge and lawsuit are unsuccessful and wholesale water service rates for future years continue to increase under the PUA's revised rate methodology, those increases would result in corresponding increases to the District's cost of service as well as the rates charged by the District to its customers and adversely affect customer water usage and revenues. Such increases could also affect the marketability of lots and homes within the District.

Under the terms of the Utility Construction Agreement ("UCA") between the District and the Developer dated effective as of January 10, 2012, as amended, the Developer has agreed to advance and pay all of the District's costs under the Raw Water Contract that are not directly related and attributable to raw water used to provide service to the District's customers, as well as the District's costs under the MOU, as amended, and the LCRA Water Services Contract that are not directly related and attributable to services being provided to its customers until the District is utilizing all capacity or services allocated to it or has sufficient revenues to pay all costs associated with unused capacity or service. The District's expenses could be detrimentally affected if the Developer fails to pay sums it has agreed to pay under the UCA.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Carlson, Brigance & Doering, Inc. (the “Engineer”), and were submitted to the TCEQ in the District’s Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and the District’s Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and review by the District’s auditor. Any contingency or surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

| | | <u>District Share^(a)</u> |
|---|-----------|-------------------------------------|
| I. CONSTRUCTION COSTS | | |
| A. Developer Contribution Items | | |
| 1. Highlands Boulevard Drainage Improvements | \$ | 1,108 |
| 2. Lakeway Highlands, Phase 1, Sections 3 and 4..... | | 812,154 |
| 3. Lakeway Highlands, Phase 1, Section 7A..... | | 913,011 |
| 4. Lakeway Highlands, Phase 1, Sections 7B..... | | 783,364 |
| 5. Engineering (10.28% of item nos. 1-4) | | <u>257,958</u> |
| Total Developer Contribution Items..... | \$ | 2,767,595 |
| B. District Items - None | | |
| NET CONSTRUCTION COSTS (62.90% of BIR) | \$ | 2,767,595 |
| II. NON-CONSTRUCTION COSTS | | |
| A. Legal Fees (3%) | \$ | 132,000 |
| B. Financial Advisor Fees (1.50%)..... | | 66,000 |
| C. Interest: | | |
| a. Capitalized Interest (18 months at 4.25%) | | 280,500 |
| b. Developer Interest | | 467,249 ^(b) |
| D. Bond Discount (3%)..... | | 132,000 |
| E. Bond Issuance Expenses | | 39,151 |
| F. Bond Application Report Costs..... | | 43,000 |
| G. Operating Expenses..... | | 457,105 |
| H. Attorney General Fees (0.1%)..... | | 4,400 |
| I. TCEQ Bond Issuance Fee (0.25%) | | 11,000 |
| K. Contingency | | <u>0</u> |
| Total Non-Construction Costs..... | \$ | 1,632,405 |
| TOTAL BOND ISSUE REQUIREMENT | \$ | 4,400,000 |

(a) The TCEQ has approved a waiver of the 30% developer contribution requirement.

(b) Estimated at 4.25%. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

THE DISTRICT

GENERAL . . . The District is a municipal utility district created by an order of the Texas Natural Resource Conservation Commission (predecessor to the TCEQ) dated June 18, 1999. The creation of the District was confirmed at an election held within the District on May 6, 2000. 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 54 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. Under the terms of the Consent Resolution of the City of Lakeway (the “City”), within whose extraterritorial jurisdiction and corporate limits the District is located, the District is required to observe certain requirements of the City which limit the purpose for which the District may sell bonds and limit the net effective interest rate on such bonds and other terms of such bonds. Construction and operation of the District’s system is subject to the regulatory jurisdiction of additional governmental agencies. See “THE SYSTEM – Regulation.”

ANNEXATION . . . As originally created, the District was located within the extraterritorial jurisdiction of the City. The Resolution adopted by the City Council of the City on August 17, 1998, consenting to the creation of the District (the “Consent Resolution”) required that the District consent to the City’s annexation of less than all of the land within the District. The City has taken action to annex portions of the District in phases as development occurs. To date, the City has annexed approximately 278 acres of land within the District, which includes all of the approximately 129.159 acres of developed land and approximately 163.419 acres of undeveloped but developable land.

Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council. If an entire district is annexed by a city, the annexing city is required to assume all debt obligations of the district; however, based on the City’s past practice and the Consent Resolution, the City may not intend to annex the entire District and assume its outstanding debt. The District makes no representation as to whether the City will continue to annex portions of the District or whether the City will ever annex the entire District and assume the District’s outstanding debt and/or dissolve the District. See “RISK FACTORS – Annexation.”

LAND USE . . . The following table has been provided by the Engineer and represents the current and planned land use within the District.

| | <u>Approximate Acres</u> | <u>Lots</u> |
|---------------------------|------------------------------|--------------------|
| Single-Family Residential | | |
| Developed Acreage..... | 129.159..... | 221 |
| Future Development | 381.577 ^(a) | 433 ^(b) |
| Totals..... | 496.158 ^(a) | 654 |

(a) Includes an approximately 10-acre school site. Excludes 399.93 acres currently reserved for wastewater irrigation as well as floodplain, drainage and open space.

(b) Projected, based on current development plans; subject to change based upon City approval of such development plans.

STATUS OF DEVELOPMENT . . . As of August 7, 2016, five sections within the District, consisting of 221 single-family residential lots on approximately 129.159 acres, had been developed with utilities, including water, wastewater and drainage improvements, and paved with internal roads. A total of 91 homes were complete and occupied; 6 homes were complete and vacant; 28 homes were under construction; and 96 lots were available for construction. There are approximately 381.577 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities, including an approximately 10-acre school site. Homes within the District have sold from approximately \$470,000 to in excess of \$1,000,000 and are currently being marketed for sale from approximately \$470,000 to \$1,500,000 with square footages ranging from approximately 2,000 to in excess of 4,800.

FUTURE DEVELOPMENT . . . The District is currently planned as a primarily single-family residential development. Approximately 381.577 developable acres of land in the District, including an approximately 10-acre school site, 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. The District’s Engineer has stated that, under current development plans, the remaining authorized but unissued new money bonds will be sufficient to finance the construction of water, wastewater and storm drainage facilities to complete the District’s water, wastewater and drainage 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, “– Future Debt” and “THE SYSTEM.”

THE DEVELOPER

ROLE OF A DEVELOPER . . . In general, the activities of a landowner or developer in a municipal utility district such as the District include conceptualizing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave certain streets in the District, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer’s right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

DESCRIPTION OF THE DEVELOPER . . . Rough Hollow Development, Ltd. (the “Developer”), which was created to acquire and develop the property in the District and fund development costs, is the primary developer of the land in the District. The Developer is a Texas limited partnership. The Developer’s general partner is JHLV GP, Inc., a Texas corporation, and its limited partners are John Scardino, Haythem Dawlett, and Rough Hollow Development Holdings, LLC.

The Developer acquires portions of the land within the District from Las Ventanas Land Partners, Ltd. and JH West Land Ventures, Ltd., in installments, prior to arranging development financing and commencing development of such land, which has been and is being developed as the single-family residential subdivisions the majority of which is known as Lakeway Highlands.

DEVELOPMENT FINANCING . . . According to the Developer, the Developer previously obtained development financing with various loans from First Horizon Home Loans (“First Horizon”), a division of First Tennessee Bank, N.A., all of which have been refinanced by other loan agreements.

A Development Loan Agreement with IBC Bank dated January 27, 2012, and modified September 12, 2013, July 31, 2015, and October 27, 2015, is in place with respect to Lakeway Highlands (the “IBC Loan”). The modified IBC Loan includes both a revolver loan (the “IBC Revolver Loan”) and a term note (the “IBC Term Note”). The maximum stated principal amount of the IBC Revolver Loan is \$22,000,000.00. The IBC Revolver Loan refinanced in full the prior Development Loan Agreements with First Horizon and IBC Bank; provided new development financing for 171 single-family lots in Lakeway Highlands, Phase I, Sections 5, 6, and 7a which were completed in March 2013; provided development financing for 161 lots in Lakeway Highlands, Phase 2-Sections 1A, 1B, 2A and 2B and widening of Highlands Boulevard, which were completed in July 2013; provided development financing for 37 lots in Lakeway Highlands, Phase 2, Section 3 which were completed in August, 2014; provided development financing for approximately 137 lots in Lakeway Highlands, Phase 1, Sections 7B and 8A, and Phase 2-Section 4 which were completed in April 2015, December 2015 and February 2016; and engineering and construction of the Highlands Wastewater Facilities, which was subsequently modified with the modified IBC Loan dated July 29, 2015 and replaced with financing for the initial payment for the Wholesale Wastewater Capacity and Services Agreement with Lakeway MUD (“Lakeway MUD Wastewater Contract”) dated July 29, 2015; and provided new development financing for approximately 169 lots in Lakeway Highlands, Phase 1, Sections 8B and future sections in Lakeway Highlands Phase 1, and Lakeway Highlands Phase 3, Sections 2 and 3.

In addition to the IBC Revolver Loan, the modified Development Loan Agreement dated September 12, 2013 includes a term loan facility (the “IBC Term Note A”) in the amount of \$12,000,000.00. The proceeds of the IBC Term Note A provided \$2,000,000.00 as a principal payment on the IBC Revolver Loan, and \$10,000,000.00 payment to Crescent Communities LLC for partial return of equity and preferred return. The modified Development Loan Agreement dated October 27, 2015 included a second term loan facility (the “IBC Term Note B”) in the amount of \$3,441,000.00. The proceeds of the IBC Term Note B provided \$3,441,000.00 for a payment to Lakeway MUD for the final capacity payment made on behalf of the Participating Districts under the Lakeway MUD Wastewater Contract. The IBC Term Note B was paid off in full on March 24, 2016.

The unpaid principal balance on the IBC Revolver Loan was \$18,868,841.16 as of July 31, 2016 with remaining loan advances available of \$17,570,573.54. The unpaid balance on the IBC Term Note as of July 31, 2016 was \$12,000,000.00. The interest rate on the IBC Loan is the Prime Rate +1%, but no less than 5.5%. The maturity date of the IBC Loan is September 12, 2019.

The Developer has represented that it is in compliance with the terms of all of its loans.

HOMEBUILDERS . . . According to the Developer, the following homebuilders are currently active within the District: Village Builders, Drees Custom Homes, LP, Highland Homes-Austin, Ltd. and Westin Homes and Properties, LP. Additionally, the Developer has advised the District that the following home builders have constructed homes in the District: MHI Central Texas, LLC (Coventry Homes), Canyonside Ventures LLC, and various custom homebuilders. Homes within the District have sold from approximately \$470,000 to in excess of \$1,000,000 and are currently being marketed for sale from approximately \$470,000 to \$1,500,000 with square footages ranging from approximately 2,000 to in excess of 4,800.

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 of November in even numbered years only. None of the Board members reside within the District; however, each of the members owns a small parcel of land within the District. The current members and officers of the Board, along with their titles and terms, are listed as follows:

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------|---------------------|---------------------|
| Richard D. Fadal | President | November 2018 |
| Jesse Kennis | Vice President | November 2016 |
| Louis Granger | Secretary | November 2016 |
| Sean Mills | Assistant Secretary | November 2016 |
| Edgar Joe Beiger, III | Assistant Secretary | November 2018 |

DISTRICT CONSULTANTS . . . The District does not have 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 District contracts with the Travis County Tax Assessor/Collector (the “Tax Assessor/Collector”) to serve in this capacity.

Management: The District has contracted with JadCo Management, Inc. for general management services.

Bookkeeper: The District has contracted with Bott & Douthitt, P.L.L.C. for bookkeeping services.

Auditor: The District’s financial statements for the year ended March 31, 2016, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See APPENDIX B for a copy of the District’s audited March 31, 2016 financial statements.

Bond Counsel and Disclosure Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P. as Bond Counsel and Disclosure Counsel in connection with the issuance of the District’s debt obligations. Bond Counsel and Disclosure Counsel fees are contingent upon the sale and delivery of the Bonds.

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

General Counsel: The District has engaged Armbrust & Brown, PLLC as general counsel to the District. Compensation to the firm for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Compensation for other legal services to the District is based on time charges actually incurred.

THE SYSTEM

REGULATION . . . Construction and operation of the District’s sanitary sewer, water distribution 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 and portions of the System. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District, the City of Lakeway and Travis County.

WATER SUPPLY AND WASTEWATER TREATMENT . . . Water treatment services for the District and the Lakeway Highlands portion of the other Participating Districts is provided through a Wholesale Water Services Agreement originally entered into by MUD 12 with the LCRA and assigned by the LCRA to the West Travis County PUA (1,680 ac. ft. annually, approximately 2,125 LUE’s). See “WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS.” As of August 7, 2016, the District had 91 complete and occupied units; 6 complete and vacant units and 28 units under construction.

Wastewater treatment services for all Participating Districts is provided through a Wholesale Wastewater Capacity and Services Agreement with the Lakeway MUD, effective as of July 29, 2015 (the “Lakeway MUD Agreement”). See “WATER SUPPLY AND WASTEWATER SERVICE ISSUES.” The Lakeway MUD Agreement provides 400,000 gallons per day of capacity in the Lakeway MUD S-5 Wastewater Treatment Plant for service to the Participating Districts. Based upon the current measured average daily wastewaters flows from the Participating Districts, it is contemplated that the Participating Districts’ contractually reserved capacity in the Lakeway MUD S-5 Wastewater Treatment Plant will be sufficient to provide wastewater service for the full build-out of the Participating Districts. If additional wastewater treatment infrastructure improvements were to become necessary at some time in the future in order to provide the 400,000 gallons per day to the Participating Districts, Lakeway MUD is contractually

obligated to construct, at no cost to the Participating Districts, all improvements required in order to provide 400,000 gallons per day of wastewater capacity to the Participating Districts. See “WATER SUPPLY, WATER AND WASTEWATER SERVICES AND PENDING MATTERS.” As of August 7, 2016, the District had 91 complete and occupied units; 6 complete and vacant units and 28 units under construction.

WATER DISTRIBUTION, WASTEWATER COLLECTION AND STORM DRAINAGE FACILITIES . . . The District and/or the Developer have constructed internal water distribution, internal wastewater collection facilities and storm drainage to serve a portion of the District. See “THE DISTRICT – Land Use.”

100-YEAR FLOOD PLAIN . . . According to the Engineer, 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. See “THE DISTRICT – Land Use.” However, no portion of the District that is within the floodplain is proposed to be developed.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the Bonds at a net interest cost of 4.25% for purposes of illustration. Preliminary, subject to change.

| Year Ending 12/31 ^(a) | Outstanding Debt | | | The Bonds | | | Total Debt Service |
|--|---------------------|---------------------|----------------------|---------------------|---------------------|---------------------|--------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 2016 | \$ - | \$ 174,899 | \$ 174,899 | \$ - | \$ - | \$ - | \$ 174,899 |
| 2017 | 60,000 | 227,284 | 287,284 | - | 131,939 | 131,939 | 419,223 |
| 2018 | 135,000 | 226,084 | 361,084 | - | 187,000 | 187,000 | 548,084 |
| 2019 | 145,000 | 222,634 | 367,634 | 100,000 | 187,000 | 287,000 | 654,634 |
| 2020 | 155,000 | 218,934 | 373,934 | 125,000 | 182,750 | 307,750 | 681,684 |
| 2021 | 165,000 | 214,984 | 379,984 | 125,000 | 177,438 | 302,438 | 682,421 |
| 2022 | 170,000 | 210,596 | 380,596 | 130,000 | 172,125 | 302,125 | 682,721 |
| 2023 | 180,000 | 205,896 | 385,896 | 130,000 | 166,600 | 296,600 | 682,496 |
| 2024 | 190,000 | 200,709 | 390,709 | 130,000 | 161,075 | 291,075 | 681,784 |
| 2025 | 200,000 | 195,009 | 395,009 | 135,000 | 155,550 | 290,550 | 685,559 |
| 2026 | 210,000 | 188,651 | 398,651 | 135,000 | 149,813 | 284,813 | 683,464 |
| 2027 | 220,000 | 181,451 | 401,451 | 140,000 | 144,075 | 284,075 | 685,526 |
| 2028 | 230,000 | 173,751 | 403,751 | 145,000 | 138,125 | 283,125 | 686,876 |
| 2029 | 245,000 | 165,401 | 410,401 | 145,000 | 131,963 | 276,963 | 687,364 |
| 2030 | 260,000 | 156,394 | 416,394 | 145,000 | 125,800 | 270,800 | 687,194 |
| 2031 | 275,000 | 146,769 | 421,769 | 150,000 | 119,638 | 269,638 | 691,406 |
| 2032 | 285,000 | 136,288 | 421,288 | 150,000 | 113,263 | 263,263 | 684,550 |
| 2033 | 305,000 | 125,425 | 430,425 | 150,000 | 106,888 | 256,888 | 687,313 |
| 2034 | 320,000 | 113,800 | 433,800 | 150,000 | 100,513 | 250,513 | 684,313 |
| 2035 | 335,000 | 101,000 | 436,000 | 150,000 | 94,138 | 244,138 | 680,138 |
| 2036 | 355,000 | 87,600 | 442,600 | 150,000 | 87,763 | 237,763 | 680,363 |
| 2037 | 375,000 | 73,400 | 448,400 | 150,000 | 81,388 | 231,388 | 679,788 |
| 2038 | 395,000 | 58,400 | 453,400 | 150,000 | 75,013 | 225,013 | 678,413 |
| 2039 | 410,000 | 42,600 | 452,600 | 150,000 | 68,638 | 218,638 | 671,238 |
| 2040 | 435,000 | 26,200 | 461,200 | 150,000 | 62,263 | 212,263 | 673,463 |
| 2041 | 220,000 | 8,800 | 228,800 | 240,000 | 55,888 | 295,888 | 524,688 |
| 2042 | - | - | - | 250,000 | 45,688 | 295,688 | 295,688 |
| 2043 | - | - | - | 265,000 | 35,063 | 300,063 | 300,063 |
| 2044 | - | - | - | 275,000 | 23,800 | 298,800 | 298,800 |
| 2045 | - | - | - | 285,000 | 12,113 | 297,113 | 297,113 |
| | <u>\$ 6,275,000</u> | <u>\$ 3,882,958</u> | <u>\$ 10,157,958</u> | <u>\$ 4,400,000</u> | <u>\$ 3,293,301</u> | <u>\$ 7,693,301</u> | <u>\$ 17,851,259</u> |

(a) The District’s fiscal year end is March 31. Due to the timing of tax collection receipts, the District budgets for its August debt service payment in the previous fiscal year.

| | |
|--|------------|
| Projected Average Annual Debt Service Requirements (2016-2045) | \$ 595,042 |
| Projected Maximum Annual Debt Service Requirement (2031)..... | \$ 691,406 |

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or

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

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

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

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

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

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes

to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

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>Percent</u> | <u>Overlapping Amount</u> |
|---|--------------------------|--------------|----------------|---------------------------|
| Travis County | \$ 717,256,497 | 07/31/16 | 0.05% | \$ 358,628 |
| City of Lakeway | 12,700,000 | 07/31/16 | 1.83% | 232,410 |
| Travis County Healthcare District | 11,355,000 | 07/31/16 | 0.05% | 5,678 |
| Travis County ESD #6 | 4,200,000 | 07/31/16 | 0.51% | 21,420 |
| Lake Travis Independent School District..... | 246,575,000 | 07/31/16 | 0.81% | <u>1,997,258</u> |
| Total Estimated Overlapping Debt | | | | \$ 2,615,394 |
| The District’s Total Direct Debt ^(a) | | | | <u>10,675,000</u> |
| Total Direct and Estimated Overlapping Debt | | | | \$ 13,290,394 |

Direct and Estimated Overlapping Debt as a Percentage of:

2016 Certified Taxable Assessed Valuation 15.76%

(a) Includes the Bonds.

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 2015 tax year by all 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.

| | 2015 Tax Rate Per \$100 <u>Assessed Valuation</u> |
|--|---|
| Travis County | \$ 0.4946 |
| Lake Travis Independent School District..... | 1.4075 |
| City of Lakeway..... | 0.1748 |
| Travis County ESD #6..... | 0.1000 |
| Travis County Healthcare District..... | <u>0.1290</u> |
| Total Overlapping Tax Rate..... | \$ 2.3059 |
| The District | <u>0.7725</u> |
| Total Tax Rate | \$ 3.0784 |

TAX DATA

DEBT SERVICE TAX . . . The Board covenants in the Bond Order 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. 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 not to exceed \$1.50 per \$100 appraised valuation. 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.

ADDITIONAL PENALTIES . . . The District has contracted with the Travis County Tax Assessor-Collector to collect certain delinquent taxes. In connection with that contract, the County is entitled to certain costs and expenses recovered by the County in any delinquent tax suits.

HISTORICAL TAX RATE

| | <u>2013</u> | <u>2014</u> | <u>2015</u> |
|--------------|---------------|---------------|---------------|
| Debt Service | \$ 0.0000 | \$ 0.0000 | \$ 0.1000 |
| Maintenance | <u>0.7725</u> | <u>0.7725</u> | <u>0.6725</u> |
| Total | \$ 0.7725 | \$ 0.7725 | \$ 0.7725 |

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 Year | Net Certified Taxable | | Total ^(b) Tax Levy | Total Collections | | As of |
|-------------|--------------------------------------|-------------|----------------------------------|-------------------|---------|---------|
| | Assessed Valuation ^(a) | Tax Rate | | Amount | Percent | |
| 2012 | \$ 18,619,016 | \$ 0.7725 | \$ 143,832 | \$ 143,832 | 100.0% | 9/30/13 |
| 2013 | 28,026,479 | 0.7725 | 216,505 | 214,773 | 99.2% | 9/30/14 |
| 2014 | 43,385,114 | 0.7725 | 335,150 | 335,150 | 100.0% | 9/30/15 |
| 2015 | 64,174,801 | 0.7725 | 495,750 | 495,750 | 100.0% | 7/31/16 |
| 2016 | 84,338,014 | 0.7725 | 651,511 | N/A | N/A | N/A |

(a) Net valuation represents final gross appraised value as certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.

(b) Represents actual tax levy, excluding 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 2014, 2015 and 2016 Certified Taxable Appraised Valuations.

| | 2016 Certified Taxable <u>Appraised Valuation</u> | 2015 Certified Taxable <u>Appraised Valuation</u> | 2014 Certified Taxable <u>Appraised Valuation</u> |
|---------------------------------|--|--|--|
| Land and Improvements | \$ 87,800,772 | \$ 67,216,297 | \$ 46,456,588 |
| Exempt Amounts | <u>3,462,758</u> | <u>3,041,496</u> | <u>3,071,474</u> |
| Net Taxable Appraised Valuation | <u>\$ 84,338,014</u> | <u>\$ 64,174,801</u> | <u>\$ 43,385,114</u> |

PRINCIPAL TAXPAYERS . . . The following table represents the principal taxpayers, the taxable appraised value of such property, and such property’s appraised 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.

| Name of Taxpayer | 2016 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|--|---------------------------------------|---|
| Las Ventanas Land Partners, Ltd ^(a) | \$ 9,209,930 | 10.92% |
| Rough Hollow Development Ltd. ^(a) | 4,371,347 | 5.18% |
| MHI Partnership Ltd. ^(b) | 2,203,982 | 2.61% |
| Drees Custom Homes LP ^(b) | 2,152,683 | 2.55% |
| Drees Custom Homes LP ^(b) | 1,302,807 | 1.54% |
| Bormann, Charles Joseph | 1,125,919 | 1.34% |
| Mastrian, Nancy A. Revocable Trust | 1,123,362 | 1.33% |
| Mohn, Gregory H. & Astrid S. | 1,048,938 | 1.24% |
| Ward, Michael | 1,023,443 | 1.21% |
| Racca, Erin | 994,969 | 1.18% |
| | <u>\$ 24,557,380</u> | <u>29.12%</u> |

(a) The Developer and entities affiliated with the Developer. See “THE DEVELOPER – Description of the Developer” and “RISK FACTORS – Dependence on Major Taxpayers and the Developer” and “– Housing Market Volatility”.

(b) Taxpayers concentrated in the homebuilding industry. See “THE DEVELOPER – Homebuilders” and “RISK FACTORS – Dependence on Major Taxpayers and the Developer.”

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 as provided by the Travis Central Appraisal District of \$84,338,014. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Outstanding Bonds and the Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-seven and a half 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.”

| | |
|---|------------|
| Projected Average Annual Debt Service Requirement (2016-2045)..... | \$ 595,042 |
| \$0.7237 Tax Rate on 2016 Certified Taxable Assessed Valuation at 97.5% collection..... | \$ 595,095 |
| Projected Maximum Annual Debt Service Requirement (2031)..... | \$ 691,406 |
| \$0.8409 Tax Rate on 2016 Certified Taxable Assessed Valuation at 97.5% collection..... | \$ 691,468 |

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

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 Order to levy such a tax from year-to-year as described more fully herein under “THE BONDS – Source of and Security for Payment.” Under Texas law, the Board 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 – 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 . . . *General:* Except for certain exemptions provided by State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Article VIII, Section 1-a of the Texas Constitution grants a \$3,000 homestead exemption for all homesteads taxed by counties for farm-to-market roads and flood control purposes. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation on the same or subsequently qualified homestead of the total appraised value of the same property to which the disabled veteran’s exemption applied. Furthermore, subject to certain conditions, the Texas Constitution provides that the surviving spouse of a 100 percent disabled veteran will qualify for the ad valorem tax exemption on the same or subsequently qualified homestead for the same portion of the market value to which the disabled veteran’s exemption would have applied, as if the exemption was in effect on the date the disabled veteran died.

Also partially exempt are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District’s voters may approve. The District’s tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State 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.

Freeport Goods and Goods-in-Transit Exemption: A “Freeport Exemption” applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A “Goods-in-Transit” Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired

in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal 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 (3) 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 1 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. 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. Additionally, the owner of a residential homestead property that is a person sixty-five (65) years of age or older is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

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 "DEBT SERVICE REQUIREMENTS –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 – Tax Collection Limitations and Foreclosure Remedies."

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

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

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

(THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK)

LEGAL MATTERS

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

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

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

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

NO-LITIGATION CERTIFICATE . . . The District will furnish the Initial Purchaser a certificate, executed by both the President or Vice President and Secretary or Assistant 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

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

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

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

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

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

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

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

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

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

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

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

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 55(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligation, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

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

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 Carlson, Brigrance & Doering, Inc. 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 B 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.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has made the following agreement for the benefit of the registered and beneficial owners. 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 (“EMMA”) system at www.emma.msrb.org.

ANNUAL REPORTS . . . The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB. In addition, the District has agreed to provide information with respect to the Developer.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements of the District, if the District commissions an audit and it is completed by the required time. If the audit of such financial statements is not complete within 12 months after the District’s fiscal year end, then the District shall file unaudited financial statements for the applicable fiscal year to the MSRB within such twelve-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 APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to Texas law or regulation.

The District's fiscal year end is March 31. Accordingly, it must provide updated information by September 30 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 notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of the District (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District).

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

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

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

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

MISCELLANEOUS

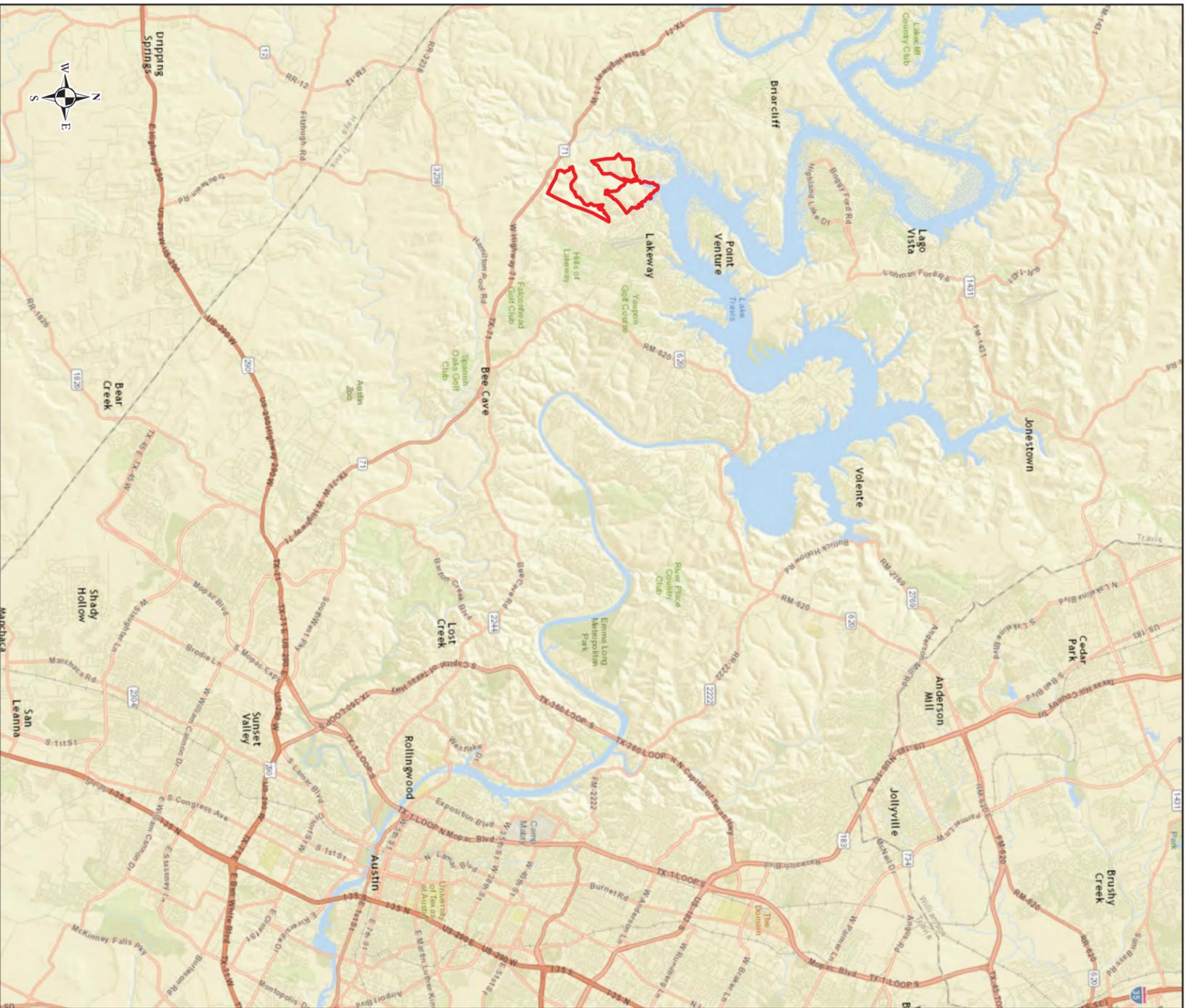
All estimates, statements and assumptions in this Official Statement and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not 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.

President, Board of Directors
Travis County Municipal Utility District No. 13

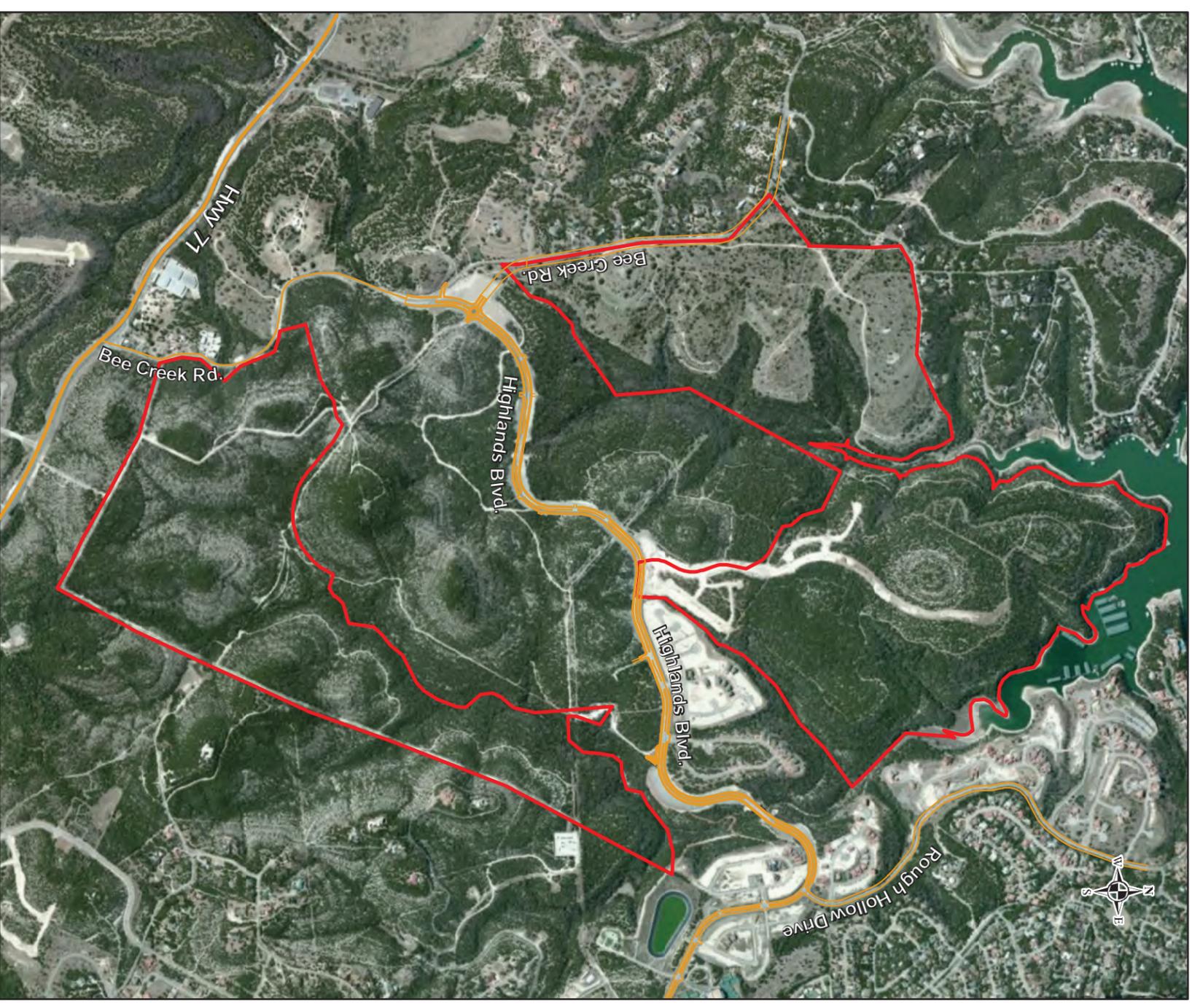
ATTEST:

Secretary, Board of Directors
Travis County Municipal Utility District No. 13

AERIAL BOUNDARY MAP



Site Location Map



TC MUD 13
 Location Map

PHOTOGRAPHS OF THE DISTRICT





APPENDIX A

FORM OF BOND COUNSEL'S OPINION

LAW OFFICES

M^cCALL, PARKHURST & HORTON L.L.P.

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

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

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

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

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
UNLIMITED TAX BONDS, SERIES 2016A
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,400,000**

AS BOND COUNSEL FOR TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13 (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on _____, 2016, authorizing the issuance of the Bonds (the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

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

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

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

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

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

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

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole

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

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

Respectfully,

APPENDIX B

AUDITED FINANCIAL STATEMENT OF THE DISTRICT

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

111 Congress Avenue
Suite 400
Austin, Texas 78701
(512) 610-2209
www.mgsbpllc.com

Board of Directors
Travis County Municipal
Utility District No. 13
Travis County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Travis County Municipal Utility District No. 13 (the "District"), as of and for the year ended March 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of March 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

July 20, 2016

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2016

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Travis County Municipal Utility District No. 13 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended March 31, 2016. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of fiscal year ended March 31, 2016, the nonspendable and the unassigned fund balance portions of the General Fund totaled \$1,067,151, an increase of \$294,656 from the previous year. During the current fiscal year the District had revenues of \$1,051,671, expenditures of \$805,183, and \$48,168 of developer advances.
- *Debt Service Fund:* Fund balance reserved for debt service increased from \$232,678 in the previous year to \$455,371 for the current year. During the current fiscal year, the District received \$263,445 of capitalized interest.
- *Capital Projects Fund:* Fund balance reserved for capital projects increased to \$439,667 from the previous year's balance of \$338,076. During the current fiscal year, the District sold \$3,275,000 of bonds and had \$2,677,268 of capital purchases and bond issue related costs.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had expenses net of revenues of \$48,135 for the fiscal year ended March 31, 2016. The District's net position decreased from a net deficit of \$643,223 to a net deficit of \$691,358.

OVERVIEW OF THE DISTRICT

The District was created, organized and established on June 18, 1999, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code. The District was created under the provisions of Article XVI, Section 59, of the Texas Constitution. The creation of the District was confirmed in an election held within the District on May 6, 2000.

The District consists of 886.09 acres of land located adjacent to the western city limits of the City of Lakeway. The District lies partially within the extraterritorial jurisdiction and partially within the incorporated limits of the City of Lakeway and is in Travis County.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2016**

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

| | Governmental Activities | | Change Positive (Negative) |
|----------------------------------|----------------------------|---------------------|----------------------------------|
| | 2016 | 2015 | |
| Current and other assets | \$ 2,181,591 | \$ 1,680,634 | \$ 500,957 |
| Capital and non-current assets | 4,745,906 | 2,305,830 | 2,440,076 |
| Total Assets | 6,927,497 | 3,986,464 | 2,941,033 |
| Current liabilities | 1,371,417 | 1,633,757 | 262,340 |
| Long-term liabilities | 6,247,438 | 2,995,930 | (3,251,508) |
| Total Liabilities | 7,618,855 | 4,629,687 | (2,989,168) |
| Net investment in capital assets | (1,061,865) | (1,318,141) | 256,276 |
| Restricted | 425,364 | 220,033 | 205,331 |
| Unrestricted net position | (54,857) | 454,885 | (509,742) |
| Total Net Position | \$ (691,358) | \$ (643,223) | \$ (48,135) |

The District's total assets were \$6,927,497 as of March 31, 2016. The District had outstanding liabilities of \$7,618,855 as of March 31, 2016. Net position at March 31, 2016 was a deficit balance of \$691,358, a decrease of \$48,135 from the previous fiscal year.

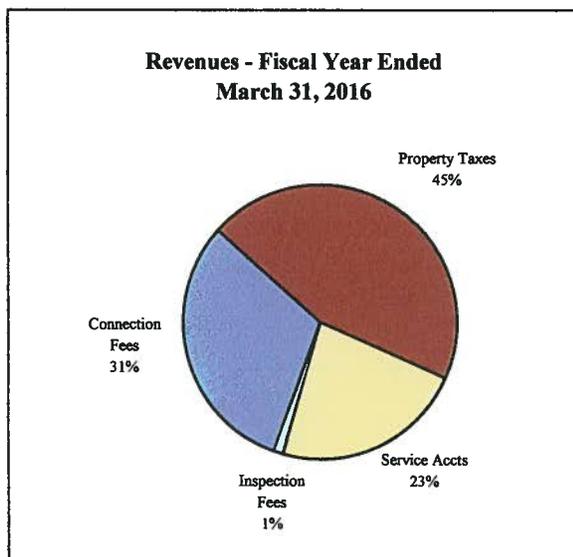
**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2016**

Revenues and Expenses:

Summary Statement of Activities

| | Governmental Activities | | Change Positive (Negative) |
|---|----------------------------|---------------------|----------------------------------|
| | 2016 | 2015 | |
| Property taxes, including penalties | \$ 499,228 | \$ 326,014 | \$ 173,214 |
| Service accounts, including penalties | 258,424 | 156,059 | 102,365 |
| Tap connection and inspection fees | 348,120 | 292,800 | 55,320 |
| Construction inspection fees | 9,862 | 37,023 | (27,161) |
| Other | 2,295 | 155 | 2,140 |
| Total Revenues | 1,117,929 | 812,051 | 305,878 |
| Water reservation/system fees | 216,627 | 188,411 | (28,216) |
| Connection/inspection/grinder pump fees | 120,694 | 120,688 | (6) |
| Legal and accounting | 67,786 | 62,465 | (5,321) |
| Management fees | 60,000 | 60,000 | - |
| Other | 210,330 | 228,329 | 17,999 |
| Debt service | 433,179 | 266,853 | (166,326) |
| Depreciation and amortization | 57,448 | 15,585 | (41,863) |
| Total Expenses | 1,166,064 | 942,331 | (223,733) |
| Change in Net Position | (48,135) | (130,280) | 82,145 |
| Beginning Net Position | (643,223) | (512,943) | (130,280) |
| Ending Net Position | \$ (691,358) | \$ (643,223) | \$ (48,135) |

Revenues were \$1,117,929 for the year ended March 31, 2016, while expenses were \$1,166,064. Net position decreased by \$48,135.



Property tax revenues for the fiscal year ended March 31, 2016, totaled \$499,228. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2015 tax year (for the fiscal year ended March 31, 2016) and the 2014 tax year (for the fiscal year ended March 31, 2015) were based on current assessed values of \$64,597,416 and \$42,266,492, respectively, and tax rates of \$0.7725 per \$100 of assessed valuation for both years. The District's primary revenue sources are property taxes, connection/inspection fees and service accounts.

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2016**

ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds by Year

| | 2016 | 2015 | 2014 | 2013 |
|--|---------------------|---------------------|-------------------|-------------------|
| Cash and investments | \$ 2,138,879 | \$ 1,651,227 | \$ 313,703 | \$ 238,749 |
| Other | 191,955 | 33,097 | 24,697 | 13,043 |
| Total Assets | 2,330,834 | 1,684,324 | 338,400 | 251,792 |
| Accounts payable and accrued expenses | 70,729 | 36,009 | 30,004 | 54,920 |
| Other | 294,688 | 302,528 | 233,391 | 20,465 |
| Total Liabilities | 365,417 | 338,537 | 263,395 | 75,385 |
| Deferred Inflows of Resources | 3,228 | 2,538 | 1,734 | - |
| Nonspendable, restricted and unassigned | 1,962,189 | 1,343,249 | 73,271 | 176,407 |
| Total Fund Balance | 1,962,189 | 1,343,249 | 73,271 | 176,407 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balance | \$ 2,330,834 | \$ 1,684,324 | \$ 338,400 | \$ 251,792 |

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs of the District and Joint Facilities. The Board of Directors adopted a budget on March 18, 2015 that included revenues of \$961,755 as compared to expenditures of \$785,201. When comparing actual to budget, the District had a positive variance of \$118,102. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CAPITAL ASSETS

The District's governmental activities had invested \$4,302,129 in land and infrastructure. The detail is reflected in the following schedule:

| | <u>Summary of Capital Assets, net</u> | |
|---------------------------------|---------------------------------------|---------------------|
| | 3/31/2016 | 3/31/2015 |
| Capital Assets: | | |
| Land | \$ 3,791 | \$ 3,791 |
| Water/Wastewater/Drainage | 4,351,288 | 1,983,724 |
| Less: Accumulated Depreciation | (52,950) | (7,099) |
| Total Net Capital Assets | \$ 4,302,129 | \$ 1,980,416 |

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

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED
MARCH 31, 2016**

LONG-TERM DEBT

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

| | <u>Bonds Payable</u> |
|-------------|--------------------------|
| Series 2015 | \$ 3,000,000 |
| Series 2016 | 3,275,000 |
| Total | <u>\$ 6,275,000</u> |

The District owes approximately \$6.3 million to bondholders. The ratio of the District's long-term debt to the total taxable assessed valuation (\$64,597,416) is 9.7%. The District's population as provided by the District, as of October 25, 2015, is 256. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The adopted budget for the fiscal year ending March 31, 2017, projects a general fund balance increase of \$293,702. Compared to the fiscal year 2016 budget, revenues are expected to increase by approximately \$198,000 and expenditures are expected to increase by \$81,000.

REQUESTS FOR INFORMATION

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

FINANCIAL STATEMENTS

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET
MARCH 31, 2016

| | General Fund | Debt Service Fund | Capital Projects Fund | Governmental Funds Total | Adjustments Note 2 | Government - wide Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|--------------------------------|-----------------------|--|
| ASSETS | | | | | | |
| Cash on deposit | \$ 235,947 | \$ - | \$ - | \$ 235,947 | \$ - | \$ 235,947 |
| Cash equivalent investments | 858,651 | 604,129 | 440,152 | 1,902,932 | - | 1,902,932 |
| Accounts receivable: | | | | | | |
| Service accounts, net of allowance for doubtful accounts of \$-0- | 36,949 | - | - | 36,949 | - | 36,949 |
| Taxes receivable | 2,810 | 418 | - | 3,228 | - | 3,228 |
| Other receivables | 1,697 | - | - | 1,697 | - | 1,697 |
| Interfund | 149,243 | - | - | 149,243 | (149,243) | - |
| Prepaid insurance | 838 | - | - | 838 | - | 838 |
| Intangible assets, net of accumulated amortization | - | - | - | - | 443,777 | 443,777 |
| Capital assets, net of accumulated depreciation - | | | | | | |
| Land | - | - | - | - | 3,791 | 3,791 |
| Water/Wastewater/Drainage Facilities | - | - | - | - | 4,298,338 | 4,298,338 |
| TOTAL ASSETS | \$ 1,286,135 | \$ 604,547 | \$ 440,152 | \$ 2,330,834 | 4,596,663 | 6,927,497 |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 56,685 | \$ - | \$ - | \$ 56,685 | \$ - | \$ 56,685 |
| Accrued expenses | 14,044 | - | - | 14,044 | - | 14,044 |
| Accrued interest payable | - | - | - | - | 30,425 | 30,425 |
| Customer deposits | 28,747 | - | - | 28,747 | - | 28,747 |
| Intergovernmental payable | 112,540 | - | - | 112,540 | - | 112,540 |
| Interfund payables | - | 148,758 | 485 | 149,243 | (149,243) | - |
| Unearned revenue | 4,158 | - | - | 4,158 | - | 4,158 |
| Developer advances | - | - | - | - | 1,124,818 | 1,124,818 |
| Bonds payable- | | | | | | |
| Due within one year | - | - | - | - | - | - |
| Due after one year | - | - | - | - | 6,247,438 | 6,247,438 |
| TOTAL LIABILITIES | 216,174 | 148,758 | 485 | 365,417 | 7,253,438 | 7,618,855 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Property taxes | 2,810 | 418 | - | 3,228 | (3,228) | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | 2,810 | 418 | - | 3,228 | (3,228) | - |
| FUND BALANCES / NET POSITION | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable | 838 | - | - | 838 | (838) | - |
| Restricted for Debt Service | - | 455,371 | - | 455,371 | (455,371) | - |
| Restricted for Capital Projects | - | - | 439,667 | 439,667 | (439,667) | - |
| Unassigned | 1,066,313 | - | - | 1,066,313 | (1,066,313) | - |
| TOTAL FUND BALANCES | 1,067,151 | 455,371 | 439,667 | 1,962,189 | (1,962,189) | - |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 1,286,135 | \$ 604,547 | \$ 440,152 | \$ 2,330,834 | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | (1,061,865) | (1,061,865) |
| Restricted for debt service | | | | | 425,364 | 425,364 |
| Unrestricted | | | | | (54,857) | (54,857) |
| TOTAL NET POSITION | | | | | \$ (691,358) | \$ (691,358) |

The accompanying notes are an integral part of this statement.

TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED MARCH 31, 2016

| | General Fund | Debt Service Fund | Capital Projects Fund | Governmental Funds Total | Adjustments Note 2 | Government - wide Statement of Activities |
|--|---------------------|-------------------------|-----------------------------|--------------------------------|-----------------------|--|
| REVENUES: | | | | | | |
| Property taxes, including penalties | \$ 434,332 | \$ 64,206 | \$ - | \$ 498,538 | \$ 690 | \$ 499,228 |
| Service accounts, including penalties | 258,424 | - | - | 258,424 | - | 258,424 |
| Tap connection and inspection fees | 348,120 | - | - | 348,120 | - | 348,120 |
| Construction inspection fees | 9,862 | - | - | 9,862 | - | 9,862 |
| Miscellaneous | 933 | 670 | 692 | 2,295 | - | 2,295 |
| TOTAL REVENUES | 1,051,671 | 64,876 | 692 | 1,117,239 | 690 | 1,117,929 |
| EXPENDITURES / EXPENSES: | | | | | | |
| Current: | | | | | | |
| Water reservation fees | 50,067 | - | - | 50,067 | - | 50,067 |
| Water system fee | 72,408 | - | - | 72,408 | - | 72,408 |
| Water purchases | 59,381 | - | - | 59,381 | - | 59,381 |
| Wastewater purchases | 34,771 | - | - | 34,771 | - | 34,771 |
| Grinder pumps | 76,800 | - | - | 76,800 | - | 76,800 |
| Connection/inspection fees | 14,720 | - | - | 14,720 | - | 14,720 |
| Construction inspection fees | 9,862 | - | - | 9,862 | - | 9,862 |
| Repairs/maintenance | 19,312 | - | - | 19,312 | - | 19,312 |
| Director fees, including payroll taxes | 6,620 | - | - | 6,620 | - | 6,620 |
| Legal fees | 43,086 | - | - | 43,086 | - | 43,086 |
| Management fees | 60,000 | - | - | 60,000 | - | 60,000 |
| Operation fees | 26,431 | - | - | 26,431 | - | 26,431 |
| Engineering fees | 10,800 | - | - | 10,800 | - | 10,800 |
| Bookkeeping fees | 24,700 | - | - | 24,700 | - | 24,700 |
| Audit fees | 9,500 | - | - | 9,500 | - | 9,500 |
| Other consulting fees | 149,921 | - | - | 149,921 | - | 149,921 |
| Tax appraisal/collection fees | 2,370 | 214 | - | 2,584 | - | 2,584 |
| Insurance | 1,705 | - | - | 1,705 | - | 1,705 |
| Other | 2,769 | - | - | 2,769 | - | 2,769 |
| Debt Service: | | | | | | |
| Interest | - | 105,214 | - | 105,214 | 18,061 | 123,275 |
| Fiscal agent fees and other | - | 200 | - | 200 | - | 200 |
| Bond issuance costs | - | - | 309,704 | 309,704 | - | 309,704 |
| Capital outlay | 129,960 | - | 2,367,564 | 2,497,524 | (2,497,524) | - |
| Depreciation | - | - | - | - | 45,851 | 45,851 |
| Amortization expense | - | - | - | - | 11,597 | 11,597 |
| TOTAL EXPENDITURES / EXPENSES | 805,183 | 105,628 | 2,677,268 | 3,588,079 | (2,422,015) | 1,166,064 |
| Excess/(Deficiency) of revenues over expenditures | 246,488 | (40,752) | (2,676,576) | (2,470,840) | 2,422,705 | (48,135) |
| OTHER FINANCING SOURCES/(USES) | | | | | | |
| Bond proceeds | 209,615 | 263,445 | 2,801,940 | 3,275,000 | (3,275,000) | - |
| Bond discount | - | - | (23,773) | (23,773) | 23,773 | - |
| Reimburse prior year advances | (209,615) | - | - | (209,615) | 209,615 | - |
| Developer advances | 48,168 | - | - | 48,168 | (48,168) | - |
| TOTAL OTHER FINANCING SOURCES/(USES) | 48,168 | 263,445 | 2,778,167 | 3,089,780 | (3,089,780) | - |
| NET CHANGE IN FUND BALANCES | 294,656 | 222,693 | 101,591 | 618,940 | (618,940) | - |
| CHANGE IN NET POSITION | | | | | (48,135) | (48,135) |
| FUND BALANCES / NET POSITION: | | | | | | |
| Beginning of the year | 772,495 | 232,678 | 338,076 | 1,343,249 | (1,986,472) | (643,223) |
| End of the year | <u>\$ 1,067,151</u> | <u>\$ 455,371</u> | <u>\$ 439,667</u> | <u>\$ 1,962,189</u> | <u>\$ (2,653,547)</u> | <u>\$ (691,358)</u> |

The accompanying notes are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (GAAP) as applied to governmental entities. Generally accepted accounting principles for local governments include those principles prescribed by the *Governmental Accounting Standards Board* (GASB), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

Reporting Entity - The District was created, organized and established on June 18, 1999, by the Texas Commission on Environmental Quality (formerly known as the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapter 49 and 54 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity", as defined by GASB standards, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in GASB standards which are included in the District's reporting entity.

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

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

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

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Presentation - Government-wide and Fund Financial Statements (continued) –

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

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

• **Government-wide Statements:**

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

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

• **Fund Financial Statements:**

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

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

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Presentation - Government-wide and Fund Financial Statements (continued) –

Governmental Fund Types (continued) –

- **Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources restricted, committed or assigned for the payment of, debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources restricted, committed or assigned for the acquisition or construction of major capital facilities.

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

Basis of Accounting

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

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

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

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

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Accounting (continued) -

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

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

Budgets and Budgetary Accounting - A budget was adopted on March 18, 2015 for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year end.

Pensions - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be "employees" for federal payroll tax purposes only.

Cash and Cash Equivalents – Cash and cash equivalents include cash on deposit as well as investments with maturities of three months or less.

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

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

| <u>Asset</u> | <u>Years</u> |
|--|--------------|
| Common and Recreation Areas | 5 - 30 |
| Water/Wastewater/Drainage Improvements | 10 - 50 |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

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

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

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

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

Fund Balance - The District adopted 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 16 for additional information on those fund balance classifications.

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

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS –

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

| | | |
|---|-----------------|---------------------|
| Fund balances - total governmental funds | | \$ 1,962,189 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds - | | |
| Capital assets | 4,355,079 | |
| Less: Accumulated depreciation | (52,950) | |
| Intangible assets | 471,920 | |
| Less: Accumulated amortization | <u>(28,143)</u> | 4,745,906 |
| Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available | | 3,228 |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds - | | |
| Advances from developer | (1,124,818) | |
| Bonds payable | (6,275,000) | |
| Issuance discount, net | 27,562 | |
| Accrued interest | <u>(30,425)</u> | <u>(7,402,681)</u> |
| Net position of governmental activities | | <u>\$ (691,358)</u> |

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

| | | |
|--|--------------------|--------------------|
| Capital outlay in year paid | 2,497,524 | |
| Interest expenditures in year paid | (17,780) | |
| Tax revenue when collected | 690 | |
| Bond sales and related bond discount as other financing source/(use) | <u>(3,251,227)</u> | (609,346) |
| Governmental funds do not report - | | |
| Depreciation of capital assets | (45,851) | |
| Amortization of bond discounts | (281) | |
| Amortization of intangible assets | <u>(11,597)</u> | <u>(57,729)</u> |
| Change in net position of governmental activities | | <u>\$ (48,135)</u> |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

3. CASH AND CASH EQUIVALENTS

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

Cash - At March 31, 2016, the carrying amount of the District's deposits was \$235,947 and the bank balance was \$242,725. The bank balance was covered by federal depository insurance.

Investments –

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

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

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

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

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

3. CASH AND INVESTMENTS (continued) -

| Investment | Fair Market Value at 3/31/2016 | Governmental Fund | | | Investment Rating | |
|------------|-----------------------------------|-------------------|--------------|------------------|-------------------|------------------|
| | | General | Debt Service | Capital Projects | Rating | Rating Agency |
| Texpool | \$ 1,902,932 | \$ 858,651 | \$ 604,129 | \$ 440,152 | AAAm | Standard & Poors |
| | \$ 1,902,932 | \$ 858,651 | \$ 604,129 | \$ 440,152 | | |

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

(2) Restricted for Purchase of Capital Assets.

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

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of March 31, 2016, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of March 31, 2016, the District's bank deposits were fully covered by FDIC insurance.

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past-due the following February 1. The Travis Central Appraisal District establishes appraised values in accordance with requirements of the Texas Legislature. The District levies taxes based on the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 28, 2015.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2014 tax roll. The tax rate, based on total taxable assessed valuation of \$64,597,416, was \$0.7725 on each \$100 valuation and was allocated \$0.6725 to the General Fund and \$0.1000 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.50 was established by the voters on May 10, 2008.

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

4. PROPERTY TAXES (continued) -

Property taxes receivable at March 31, 2016, consisted of the following:

| | Debt | | Total |
|---------------------|-----------------|-----------------|-----------------|
| | General Fund | Service Fund | |
| Current year levy | \$ 2,810 | \$ 418 | \$ 3,228 |
| Prior years' levies | - | - | - |
| | <u>\$ 2,810</u> | <u>\$ 418</u> | <u>\$ 3,228</u> |

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

5. INTERFUND ACCOUNTS

A summary of interfund accounts at March 31, 2016 is as follows:

| | Interfund | |
|--------------------------------|-------------------|-------------------|
| | Receivable | Payable |
| General Fund - | | |
| Debt Service Fund | \$ 148,758 | - |
| Capital Projects Fund | 485 | - |
| Debt Service Fund - | | |
| General Fund | - | 148,758 |
| Capital Projects Fund - | | |
| General Fund | - | 485 |
| | <u>\$ 149,243</u> | <u>\$ 149,243</u> |

6. INTANGIBLE ASSETS

A summary of changes in intangible assets follows:

| | Balance 4/1/2015 | Additions | Deletions | Balance 3/31/2016 |
|---|---------------------|-------------------|-------------|----------------------|
| Intangible assets: | | | | |
| Right to receive service | \$ 341,960 | \$ 129,960 | - | \$ 471,920 |
| Total intangible assets being amortized | <u>341,960</u> | <u>129,960</u> | <u>-</u> | <u>471,920</u> |
| Less accumulated amortization for : | | | | |
| Right to receive service | (16,546) | (11,597) | - | (28,143) |
| Total accumulated amortization | <u>(16,546)</u> | <u>(11,597)</u> | <u>-</u> | <u>(28,143)</u> |
| Total intangible assets being amortized, net of accumulated amortization | <u>\$ 325,414</u> | <u>\$ 118,363</u> | <u>\$ -</u> | <u>\$ 443,777</u> |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

7. CHANGES IN CAPITAL ASSETS

| | Balance 4/1/2015 | Additions | Deletions | Balance 3/31/2016 |
|--|-----------------------------|------------------|------------------|------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 3,791 | \$ - | \$ - | \$ 3,791 |
| Capital assets being depreciated: | | | | |
| Water, Wastewater & Drainage Facilities | 1,983,724 | 2,367,564 | - | 4,351,288 |
| Total capital assets being depreciated | 1,983,724 | 2,367,564 | - | 4,351,288 |
| Less accumulated depreciation for : | | | | |
| Water, Wastewater & Drainage Facilities | (7,099) | (45,851) | - | (52,950) |
| Total accumulated depreciation | (7,099) | (45,851) | - | (52,950) |
| Total capital assets being depreciated, net of accumulated depreciation | 1,976,625 | 2,321,713 | - | 4,298,338 |
| Total capital assets, net | \$ 1,980,416 | \$ 2,321,713 | \$ - | \$ 4,302,129 |

8. ECONOMIC DEPENDENCY

From inception, the District has been dependent upon its major developer for operating advances. The developer continues to own a substantial portion of the taxable property within the District. The developer's willingness to make advances in future years will directly affect the District's ability to meet future obligations. During the current fiscal year, the developer of the District advanced \$48,168 to the District. Unreimbursed advances from inception total \$1,124,818 as of March 31, 2016. These advances, plus interest, are subject to reimbursement from future bond issues in accordance with the rules of the Texas Commission on Environmental Quality.

9. BONDED DEBT

The following is a summary of bond transactions of the District for the year ended March 31, 2016:

| | Unlimited Tax Bonds |
|--|----------------------------|
| Bonds payable at April 1, 2015 | \$ 3,000,000 |
| Bonds issued | 3,275,000 |
| Bonds retired | - |
| Bond discount, net of accumulated amortization | (27,562) |
| Bonds payable at March 31, 2016 | \$ 6,247,438 |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

9. BONDED DEBT (continued) -

Bonds payable at March 31, 2016, were comprised of the following individual issues:

Unlimited Tax Bonds:

\$3,000,000 – 2015 Unlimited Tax Bonds payable serially through the year 2041 at interest rates which range from 2.0% to 4.0%. Bonds maturing on and after August 15, 2023 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, 2022.

\$3,275,000 – 2016 Unlimited Tax Bonds payable serially through the year 2042 at interest rates which range from 3.0% to 4.0%. Bonds maturing on and after August 15, 2024 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, 2023.

The annual requirements to amortize all bonded debt at March 31, 2016, including interest, are as follows:

| Fiscal Year Ended | Annual Requirements for All Series | | | |
|-------------------|------------------------------------|-----------|--------------|---------------|
| | March 31 | Principal | Interest | Total |
| 2017 | \$ | - | \$ 235,343 | \$ 235,343 |
| 2018 | | 60,000 | 226,684 | 286,684 |
| 2019 | | 135,000 | 224,360 | 359,360 |
| 2020 | | 145,000 | 220,783 | 365,783 |
| 2021 | | 155,000 | 216,959 | 371,959 |
| 2022-2026 | | 905,000 | 1,014,029 | 1,919,029 |
| 2027-2031 | | 1,165,000 | 844,707 | 2,009,707 |
| 2032-2036 | | 1,520,000 | 593,695 | 2,113,695 |
| 2037-2041 | | 1,970,000 | 248,800 | 2,218,800 |
| 2042 | | 220,000 | 4,400 | 224,400 |
| | \$ | 6,275,000 | \$ 3,829,760 | \$ 10,104,760 |

\$455,371 is available in the Debt Service Fund to service the bonded debt.

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

Bonds authorized but not issued as of March 31, 2016, are as follows:

| <u>Type</u> | <u>Amount</u> |
|----------------------------------|----------------|
| Unlimited Tax Bonds | \$ 106,765,000 |
| Park and Recreational Facilities | \$ 53,055,000 |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

10. COMMITMENTS AND CONTINGENCIES

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of March 31, 2016, has recorded no liability pertaining to such costs.

11. RISK MANAGEMENT

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

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

12. FIRM WATER CONTRACT

On September 23, 2008, Travis County Municipal Utility District No. 12 (District No. 12) executed a Firm Water Contract with the Lower Colorado River Authority (LCRA) on behalf of itself, Travis County Municipal Utility District No. 11 (District No. 11) and the District (collectively, the Participating Districts). Per the terms of the contract, the Participating Districts will have the right to a maximum of 1,680 acre-feet (547,429,680 gallons) of raw or untreated water per annum. If the amount of water diverted for any reason exceeds the maximum annual quantity during two consecutive years, or two out of any four consecutive years, the LCRA shall have the right to require District No. 12 to negotiate a new standard form water contract for an increased maximum annual quantity of water on behalf of the Participating Districts. The water supplied by the LCRA is for municipal use only. This water supply and the related costs will be shared by the Participating Districts (see Note 15 below). Under the Firm Water Contract, the District is obligated to implement a water conservation plan and to amend its water conservation plan as necessary to reflect amendments in State law or LCRA's rules and regulations.

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

12. FIRM WATER CONTRACT (continued) –

Under the Firm Water Contract, District No. 12 is required to pay the LCRA, on a monthly basis, an amount of money equal to the rate determined by the Board of Directors of the LCRA to then be in effect for all sales of firm water for the same use as provided in the contract (“Water Rate”) multiplied by the amount of water diverted by District No. 12, on behalf of the Participating Districts, during the previous month. In addition, District No. 12 agreed to pay the LCRA, on a calendar year basis, an amount of money equal to the water rate multiplied by fifty percent of the excess of the maximum annual quantity reserved under the contract over the amount of water diverted during the previous calendar year. Further, District No. 12 agreed to pay the cost of any water diverted in excess of the maximum annual quantity as defined in the contract. These costs are allocated among and shared by the Participating Districts (see Note 15).

The term of this contract is 40 years.

13. WHOLESALE WATER SERVICES AGREEMENT

On October 20, 2009, District No. 12 executed a Wholesale Water Services Agreement (the “Water Services Agreement”) with the Lower Colorado River Authority (LCRA) in which LCRA agreed to provide wholesale water services to District 12 on behalf of the Participating Districts. Per the Water Services Agreement, the Participating Districts will be responsible for construction of all improvements necessary to transport the potable water provided by LCRA from the delivery point to the Participating Districts’ utility systems and to supply potable water service to the Participating Districts’ service areas. Per the Water Services Agreement, LCRA has agreed to expand and improve water facilities (the LCRA System) as necessary to provide adequate wholesale water services, with all costs of the LCRA System to be recovered in a fair and equitable manner through the rates and charges of LCRA to the customers of the LCRA System. The LCRA has contracted to sell the West Travis County Water System to the West Travis Public Utility Agency (“PUA”) in an installment sale and, in connection with that sale, has transferred operations and maintenance responsibilities under the Water Services Agreement to the PUA as its assignee.

14. WHOLESALE WASTEWATER CAPACITY AND SERVICES AGREEMENT

Effective July 29, 2015, District No. 12 contracted with Lakeway Municipal Utility District (Lakeway MUD) on behalf of the Participating Districts to purchase an additional maximum monthly daily average volume of 305,200 GPD of wastewater treatment and disposal capacity from Lakeway MUD for a total purchase price of \$4,941,000 in order to provide the Participating Districts with a total maximum monthly daily average volume of wastewater treatment and disposal capacity of 400,000 GPD in lieu of construction of a stand-alone plant by the Participating Districts. The District’s share of this payment was determined to be \$2,075,200 or 42% as defined in Note 15.

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

15. MEMORANDUM OF UNDERSTANDING REGARDING SHARED RAW WATER SUPPLY AND WATER AND WASTEWATER CAPACITY

Effective April 5, 2010, the Participating Districts entered into an Amended and Restated Memorandum of Understanding Regarding Shared Raw Water Supply and Water and Wastewater Capacity and Services (“MOU) with Rough Hollow Development, Ltd. (the “Developer”). The MOU was executed in contemplation of the future execution of a Shared Facilities Agreement between the parties.

The MOU has been amended by First Amendment dated effective August 23, 2011, Second Amendment dated effective as of August 12, 2014, and Third Amendment dated effective August 19, 2015. The MOU, as amended, provides for, among other things, the allocation of costs for shared raw water supply and allocated capacity for shared water and wastewater facilities that serve the portion of District No. 11 located within the area known as the Highlands, and all of District No. 12 and the District (the “Highlands”).

The allocations are as follows:

Allocated Raw Water Supply and Share of Raw Water Costs

| District | Allocated Water Supply | Cost Allocation Percentage |
|-----------------|------------------------|----------------------------|
| District No. 11 | 142.332 million gal/yr | 26% |
| District No. 12 | 218.972 million gal/yr | 40% |
| The District | 186.126 million gal/yr | 34% |

Allocated Capacity and Share of Costs in Lift Station No. 1 and Four-Inch Force Main

| District | Allocated Capacity | Cost Allocation Percentage |
|-----------------|--------------------|----------------------------|
| District No. 11 | 180 LUE's | 71.1% |
| District No. 12 | 0 LUE's | 0.0% |
| The District | 73 LUE's | 28.9% |
| Total | 253 LUE's | 100.0% |

Allocated Capacity and Share of Costs of Potable Water Services and Highlands Shared Facilities

| District | Allocated Capacity | Cost Allocation Percentage |
|-----------------|--------------------|----------------------------|
| District No. 11 | 152 LUE's | 10.0% |
| District No. 12 | 799 LUE's | 48.0% |
| The District | 689 LUE's | 42.0% |
| Total | 1,640 LUE's | 100.0% |

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

15. MEMORANDUM OF UNDERSTANDING REGARDING SHARED RAW WATER SUPPLY AND WATER AND WASTEWATER CAPACITY (continued) -

Under the Third Amendment to the MOU, the additional wastewater capacity of 305,200 GPD purchased from Lakeway MUD by District No. 12 on behalf of the Participating Districts is to be allocated as set forth above for the Highland Shared Facilities.

Under the MOU, the Developer has agreed to pay the District's share of costs under the Firm Water Contract described in Note 12, the Water Services Agreement described in Note 13 and certain other costs associated with water actually being used by the District to provide service until the District is utilizing all water allocated to it under the MOU or has revenues available to pay its share of such costs.

16. NET POSITION DEFICIT

Net position reflected a deficit balance of \$691,358 at March 31, 2016. This is primarily attributable to developer advances that are subject to reimbursement in future bond issues.

17. FUND BALANCES

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

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

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

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

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

**TRAVIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 13
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2016**

18. PENDING LITIGATION

On March 6, 2014, District No. 12 filed an administrative appeal on behalf of the Participating Districts before the Public Utility Commission of Texas (PUCT) appealing the change of wholesale water rates implemented by the PUA under the Wholesale Water Services Agreement described in Note 13. The appeal sought to have the PUCT declare that the rates and rate methodology used by the PUA to set the rates for wholesale water service charged to the Participating Districts adversely affected the public interest, and to ultimately require the PUA to submit to the rate setting authority of the PUCT for a determination of just and reasonable rates. After a contested case hearing and based on a recommendation by an Administrative Law Judge, the PUCT concluded that the rate and methodology were not adverse to the public interest and denied the Participating Districts' appeal. The Participating Districts timely filed a motion for rehearing which the PUCT declined to consider. On February 4, 2016, the Participating Districts filed a petition asking Travis County District Court to review the PUCT order and reverse and remand same. The Petition is pending in the 250th Judicial District. There is little to no possibility of a potential economic loss arising from this litigation, other than the cost of the litigation.

On May 26, 2016, District No. 12 on behalf of the Participating Districts, filed suit against the PUA in *Travis County Municipal Utility District No. 12 v. West Travis County Public Utility Agency*. This litigation asserts a breach of contract claim against the PUA for excessive and improper charges under the Water Services Agreement. The petition alleges that rates charged the Participating Districts by the PUA are in excess of the cost of services being provided and in breach of the Water Services Contract. The discovery process in connection with this suit has not yet begun, and it is too soon to render an opinion regarding the likelihood or expected amount of any recovery. There is little to no possibility of a potential economic loss arising from this litigation, other than the cost of the litigation.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**TRAVIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 13
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2016**

| | <u>Actual</u> | <u>Original Budget</u> | <u>Variance Positive (Negative)</u> |
|--|---------------------|----------------------------|---|
| REVENUES: | | | |
| Property taxes, including penalties | \$ 434,332 | \$ 403,500 | \$ 30,832 |
| Service accounts, including penalties | 258,424 | 195,255 | 63,169 |
| Tap connection and inspection fees | 348,120 | 363,000 | (14,880) |
| Construction inspection fees | 9,862 | - | 9,862 |
| Miscellaneous | 933 | - | 933 |
| TOTAL REVENUES | <u>1,051,671</u> | <u>961,755</u> | <u>89,916</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| Water reservation fees | 50,067 | 50,000 | (67) |
| Water system fee | 72,408 | 70,980 | (1,428) |
| Water purchases | 59,381 | 97,167 | 37,786 |
| Wastewater purchases | 34,771 | 67,356 | 32,585 |
| Grinder pumps | 76,800 | 72,000 | (4,800) |
| Connection/inspection fees | 14,720 | 15,000 | 280 |
| Construction inspection fees | 9,862 | - | (9,862) |
| Repairs/maintenance | 19,312 | 27,000 | 7,688 |
| Director fees, including payroll taxes | 6,620 | 9,780 | 3,160 |
| Legal fees | 43,086 | 46,560 | 3,474 |
| Management fees | 60,000 | 60,000 | - |
| Operation fees | 26,431 | 22,908 | (3,523) |
| Engineering fees | 10,800 | 10,800 | - |
| Bookkeeping fees | 24,700 | 21,750 | (2,950) |
| Audit fees | 9,500 | 8,500 | (1,000) |
| Other consulting fees | 149,921 | 75,000 | (74,921) |
| Tax appraisal/collection fees | 2,370 | 2,700 | 330 |
| Insurance | 1,705 | 1,400 | (305) |
| Other | 2,769 | 2,700 | (69) |
| Capital outlay | 129,960 | 123,600 | (6,360) |
| TOTAL EXPENDITURES | <u>805,183</u> | <u>785,201</u> | <u>(19,982)</u> |
| Excess/(Deficiency) of revenues over expenditures | <u>246,488</u> | <u>176,554</u> | <u>69,934</u> |
| OTHER FINANCING SOURCES/(USES) | | | |
| Bond proceeds | 209,615 | - | |
| Reimburse operating advances | (209,615) | - | |
| Developer advances | 48,168 | - | 48,168 |
| TOTAL OTHER FINANCING SOURCES/(USES) | <u>48,168</u> | <u>-</u> | <u>48,168</u> |
| NET CHANGE IN FUND BALANCE | 294,656 | <u>\$ 176,554</u> | <u>\$ 118,102</u> |
| FUND BALANCE : | | | |
| Beginning of the year | <u>772,495</u> | | |
| End of the year | <u>\$ 1,067,151</u> | | |