

OFFICIAL STATEMENT DATED AUGUST 13, 2018

Rating:  
S&P: "AA-"  
See: "MUNICIPAL BOND  
RATING"

NEW ISSUE – BOOK-ENTRY-ONLY

*Delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.*

**THE DISTRICT HAS DESIGNATED THE BONDS AS QUALIFIED TAX-EXEMPT OBLIGATIONS.**  
**See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.**

**\$3,400,000**  
**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
*(A Political Subdivision of the State of Texas Located in Travis County, Texas)*  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2018**

**Dated: September 6, 2018**

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

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

**PAYMENT TERMS** . . . Interest on the Bonds will accrue from the date of initial delivery and is payable March 1, 2019 and each September 1 and March 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the "Paying Agent"). The Bonds described above are obligations solely of Lakeway Municipal Utility District (the "District") and are not obligations of the State of Texas ("State"), Travis County, 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. See "THE BONDS – Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

Proceeds of the Bonds will be used to (i) refund a portion of the District's outstanding obligations as more particularly described in "SCHEDULE I – SCHEDULE OF REFUNDED BONDS" (the "Refunded Bonds") to achieve a debt service savings and (ii) pay the costs associated with the issuance of the Bonds.

**REDEMPTION PROVISIONS** . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024 in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Redemption."

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**CUSIP PREFIX: 512503**  
**MATURITY SCHEDULE**  
See inside cover page

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**LEGALITY** . . . The Bonds are offered by the underwriter named below (the "Underwriter") subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed on for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Houston, Texas.

**DELIVERY** . . . Delivery of the Bonds is expected through the facilities of DTC on September 6, 2018, the date of initial delivery.

**SAMCO CAPITAL MARKETS, INC.**

## MATURITY SCHEDULE

<u>9/1</u> <u>Maturity</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield<sup>(a)</sup></u>	<u>CUSIP</u> <u>Numbers<sup>(b)</sup></u>
2019	\$ 250,000	4.000%	1.800%	512503SX2
2020	260,000	4.000%	1.950%	512503SY0
2021	270,000	2.000%	2.100%	512503SZ7
2022	280,000	2.000%	2.250%	512503TA1
2023	295,000	2.000%	2.400%	512503TB9
2024	305,000	3.000%	2.550%	<sup>(c)</sup> 512503TC7
2025	315,000	2.250%	2.700%	512503TD5
2026	330,000	3.000%	2.850%	<sup>(c)</sup> 512503TE3
2027	345,000	3.000%	2.950%	<sup>(c)</sup> 512503TF0
2028	365,000	3.000%	3.000%	512503TG8
2029	385,000	3.000%	3.100%	512503TH6

**(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 Underwriter 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 S&P Capital IQ LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Yield calculated based on the assumption that the Bonds will be redeemed on September 1, 2023, the first optional redemption date for such Bonds, at a redemption price of par plus accrued interest to the redemption date.

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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 connection with 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.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Underwriter. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the 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. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

None of the District, the Financial Advisor or the Underwriter make any representation regarding the information contained in this Official Statement regarding DTC or its book-entry-only system. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds.

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The cover page and inside cover page hereof, this page, the schedule and appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

## **SALE AND DISTRIBUTION OF THE BONDS**

**UNDERWRITING . . .** The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page 2 hereof less an Underwriter's discount of \$29,432.56. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

**PRICES AND MARKETABILITY . . .** The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter 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 Underwriter regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

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

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

**SECURITIES LAWS . . .** No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

## **MUNICIPAL BOND RATING**

The Bonds and the outstanding debt of the District have been rated "AA-" by Standard & Poor's Ratings Services, A Standard & Poor's Financial Services LLC business ("S&P") without regard to credit enhancement.

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## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

<b>THE ISSUER</b> .....	Lakeway Municipal Utility District (the “District”), located in Travis County, Texas, is a political subdivision of the State of Texas, as authorized by Article XVI, Section 59 of the Texas Constitution. The District was created on February 17, 1972 by an order of the Texas Water Rights Commission, predecessor to the Texas Natural Resource Conservation Commission, now called the Texas Commission on Environmental Quality (“TCEQ”), and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT – General.”
<b>LOCATION</b> .....	The District is situated on the southwest shore of Lake Travis and is located approximately 20 miles northwest of the central business district of the City of Austin. The District contains approximately 1,868 acres of land and is mostly within the boundaries of the City of Lakeway and the Village of the Hills and partially within the extraterritorial jurisdiction of the Village of the Hills, respectively. See “THE DISTRICT – Location.”

### THE BONDS

<b>DESCRIPTION</b> .....	The Bonds in the aggregate principal amount of \$3,400,000 mature serially in varying amounts on September 1 of each year from 2019 through 2029 as set forth on the inside cover page hereof. Interest accrues from the date of initial delivery and is payable March 1, 2019 and each September 1 and March 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See “THE BONDS – General Description.”
<b>REDEMPTION</b> .....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2024, in whole or from time to time in part, on September 1, 2023, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Redemption.”
<b>SOURCE OF PAYMENT</b> .....	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, Travis County, the State of Texas or any entity other than the District. See “THE BONDS – Source of and Security for Payment.”
<b>PAYMENT RECORD</b> .....	The District has made timely payment on its Unlimited Tax Refunding Bonds, Series 2005; Unlimited Tax Bonds, Series 2009 and Unlimited Tax Bonds, Series 2013 (collectively, the “Outstanding Bonds”). See “FINANCIAL STATEMENT – Outstanding Bonds.”
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are issued pursuant to Chapter 1207, Texas Government Code, as amended, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an order to be adopted by the District’s Board of Directors (the “Board”) on August 8, 2018 (the “Order”), and a Pricing Certificate executed by the District’s authorized Pricing Officer on the date of sale of the Bonds (collectively, the “Bond Order”) and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS – Authority for Issuance.”
<b>USE OF PROCEEDS</b> .....	Proceeds of the Bonds will be used to (i) refund a portion of the District’s outstanding obligations as more particularly described in “SCHEDULE I – SCHEDULE OF REFUNDED BONDS” (the “Refunded Bonds”) to achieve a

debt service savings and (ii) pay the costs associated with the issuance of the Bonds.

<b>MUNICIPAL BOND RATING</b> .....	The Bonds and the outstanding debt of the District have been rated “AA-” by Standard & Poor’s Ratings Services, A Standard & Poor’s Financial Services LLC business (“S&P”) without regard to credit enhancement.
<b>QUALIFIED TAX-EXEMPT OBLIGATIONS</b> .....	The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represents that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2018 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
<b>BOND COUNSEL</b> .....	McCall, Parkhurst & Horton L.L.P., Austin, Texas
<b>UNDERWRITER’S COUNSEL</b> .....	Norton Rose Fulbright US LLP, Houston, Texas
<b>FINANCIAL ADVISOR</b> .....	Specialized Public Finance Inc., Austin, Texas
<b>ENGINEER</b> .....	Castleberry Engineering & Consulting P.L.L.C.

**RISK FACTORS**

The purchase and ownership of the Bonds involve certain risk factors and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned “RISK FACTORS,” with respect to investment in the Bonds.

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**SELECTED FINANCIAL INFORMATION**  
(Unaudited as of May, 2018)

2014 Certified Taxable Assessed Valuation .....	\$	1,039,623,881	(a)
2015 Certified Taxable Assessed Valuation .....	\$	1,106,119,772	(a)
2016 Certified Taxable Assessed Valuation .....	\$	1,167,187,921	(a)
2017 Certified Taxable Assessed Valuation .....	\$	1,248,243,751	(a)
2018 Certified Taxable Assessed Valuation .....	\$	1,320,992,635	(a)
Gross Debt Outstanding of the District (after issuance of the Bonds).....	\$	14,245,000	(b)
Ratio of Gross Debt to 2018 Certified Taxable Assessed Valuation.....		1.07%	
2017 Tax Rate:			
Debt Service.....	\$	0.1082	
Maintenance.....		0.0176	
Total 2017 Tax Rate.....	\$	0.1258	
Debt Service Fund Balance (as of May 31, 2018) .....	\$	2,573,121	(c)
Operating Fund Balance (as of May 31, 2018) .....	\$	5,460,865	
Percentage of total tax collections – through 5-31-18.....		99.34%	(d)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds (“Average Requirement”) (2018-2033).....	\$	1,113,111	(b)
Tax Rate required to pay Average Requirement based upon 2018 Certified Taxable Assessed Valuation at 95% collections .....	\$	0.0887/\$100 AV	
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds (“Maximum Requirement”) (2018) .....	\$	2,038,027	(b)
Tax Rate required to pay Maximum Requirement based upon 2018 Certified Taxable Assessed Valuation at 95% collections .....	\$	0.1624 /\$100 AV	

Status of water and wastewater connections as of May 31, 2018:

	<u>Existing Connections</u>	<u>Vacant Lots</u>	<u>Estimated Future Connections</u>	<u>Estimated Total Connections</u>
Water:				
Residential	3,941	394	107	4,442
Commercial	<u>125</u>	<u>0</u>	<u>19</u>	<u>144</u>
Total Water	4,066	394	126	4,586
Wastewater:				
Residential	2,952	242	53	3,247
Commercial	<u>72</u>	<u>0</u>	<u>19</u>	<u>91</u>
Total Wastewater	3,024	242	72	3,338

- (a) Taxable Assessed Valuations of the District as of January 1, 2014-17, respectively, as certified by the Travis Central Appraisal District (“TCAD”). See “TAXING PROCEDURES.”
- (b) Includes the Bonds and excludes the Refunded Bonds.
- (c) Unaudited as of May 31, 2018. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District’s Debt Service Fund.
- (d) See “TAX DATA – Tax Collections.”

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**OFFICIAL STATEMENT  
relating to**

**\$3,400,000  
LAKEWAY MUNICIPAL UTILITY DISTRICT  
(A Political Subdivision of the State of Texas Located in Travis County, Texas)  
UNLIMITED TAX REFUNDING BONDS, SERIES 2018**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Lakeway Municipal Utility District (the "District"), a political subdivision of the State of Texas (the "State"), of its \$3,400,000 Unlimited Tax Refunding Bonds, Series 2018 (the "Bonds").

The Bonds will be issued pursuant to an order adopted by the Board of Directors of the District on August 8, 2018 (the "Order"), and a pricing certificate executed by the pricing officer on the date of sale of the Bonds as designated in the order (the order and the pricing certificate are collectively referred to herein as the "Bond Order"), the Constitution and general laws of the State of Texas (the "State") including Article XVI, Section 59 of the Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

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

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds of the Bonds will be used to refund a portion of the District's outstanding obligations as more particularly described in "SCHEDULE I – Schedule of Refunded Bonds" (the "Refunded Bonds") to realize debt service savings and pay the costs associated with the issuance of the Bonds.

**REFUNDED BONDS . . .** The principal of and interest due on the Refunded Bonds are to be paid on the scheduled interest payment dates, maturity dates and the respective redemption dates of such Refunded Bonds, as applicable, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, National Association, Dallas (the "Escrow Agent"). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the District, the District will deposit with the Escrow Agent the cash necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable. Specialized Public Finance Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency (such certification, the "Sufficiency Certificate") of the amount initially deposited to the Escrow Fund, without regard to investment, to pay the principal of and interest on the Refunded Bonds, when due, at their date of redemption. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

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

**SOURCES OF FUNDS:**

Par Amount of Bonds	\$ 3,400,000.00
Net Original Issue Premium	3,652.45
District Contribution	1,200,000.00
Total Sources of Funds	<u>\$ 4,603,652.45</u>

**USES OF FUNDS:**

Escrow Deposit	\$ 4,468,729.44
Costs of Issuance	102,175.00
Underwriter's Discount	29,432.56
Deposit to Debt Service Fund	3,315.45
Total Uses of Funds	<u>\$ 4,603,652.45</u>

**THE BONDS**

**GENERAL DESCRIPTION . . .** The Bonds will bear interest from the date of initial delivery and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on page 2 hereof. Interest on the Bonds will accrue from the date of initial delivery and will be paid on March 1, 2019 and each September 1 and March 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. 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 The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (the "Paying Agent" or "Paying Agent/Registrar").

**REDEMPTION . . .** The Bonds maturing on and after September 1, 2024 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2023, 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.

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

**SOURCE OF AND SECURITY FOR PAYMENT . . .** The Bonds will be payable from and secured by a pledge of the proceeds of a continuing direct annual ad valorem tax without legal limitation as to rate or amount levied against all taxable property located within the District as provided in the Order. The Bonds involve certain special investment considerations, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds, including particularly the section titled “RISK FACTORS”.

While the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, beginning with the current year, a continuing direct annual ad valorem tax, without legal limit as to

rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Order, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

**PAYMENT RECORD . . .** The District has not defaulted on the payment of principal of or interest on the Previously Issued Bonds. See “FINANCIAL STATEMENT – Outstanding Bonds.”

**FLOW OF FUNDS . . .** The Bond Order creates or confirms the creation by the District of a Debt Service Fund and an Escrow 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 Underwriter, the amount received from proceeds of the Bonds representing accrued interest and capitalized interest on the Bonds, if any, (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.

**ESCROW FUND . . .** The Refunded Bonds and the interest thereon will be paid on the redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow Fund. See “PLAN OF FINANCING.”

**PAYING AGENT/REGISTRAR . . .** Principal of and semiannual interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, National Association having an office for payment in Dallas, 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 fifteenth (15th) calendar day of the month (whether or not a business day) preceding such interest payment date.

**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."

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

**SPECIFIC TAX COVENANTS . . .** In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may omit to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or

rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or noncompliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

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

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

**CONSOLIDATION . . .** The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water and wastewater systems with any other district, and the District currently has no plans to do so.

**DISSOLUTION OF THE DISTRICT . . .** The District is located partially within the City of Lakeway and partially within the Village of the Hills and the extraterritorial jurisdiction of the Village of the Hills, respectively. Under Texas law, a special district such as the District, may be abolished by agreement among the district and the municipalities in which the district is located. The Agreement must provide for the distribution among the municipalities of the property and other assets of the District and for the pro-rata assumption by the municipalities of all the debts, liabilities, and obligations of the District. It must also provide for service to customers in incorporated areas in the service area of the abolished district. Each municipality shall levy and collect taxes on all taxable property in the municipality to pay its pro-rata share of the debt service of any district bonds or other obligations payable in whole or in part from property taxes.

**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.*

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

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

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

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

Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

## **RISK FACTORS**

**GENERAL . . .** The Bonds, which are obligations of the District and are not obligations of the City of Lakeway; Travis County, Texas; the State of Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Source of and Security for Payment."

The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies" below.

**Impact on District Tax Rates:** Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2018 Certified Taxable Assessed Valuation is \$1,320,992,635 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$2,038,027 (2018) and the Average Annual Debt Service Requirement will be \$1,113,111 (2018-2033). Based on the 2018 Certified Taxable Assessed Valuation, a tax rate of \$0.1624/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement, and a tax rate of \$0.0887/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement. See "DEBT SERVICE SCHEDULE" and "TAX DATA – Tax Adequacy for Debt Service."

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 DEVELOPERS . . .** The top ten principal taxpayers represent \$84,373,662 or 6.39% of the District's 2018 Certified Taxable Assessed Valuation of \$1,320,992,635. The District is not required by law or the Order to maintain any specified amount of surplus in its interest and sinking fund. See "– Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

**Developers under No Obligation to the District:** There is no commitment from, or obligation of, any developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed lots and

tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the developers and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See “THE DEVELOPERS” and “SELECTED FINANCIAL INFORMATION – Principal Taxpayers.”

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

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

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

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

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

***Developer Bankruptcy:*** In the event of bankruptcy of the Developers within the District, it is possible the District could experience volatility in the ad valorem tax rate established by the District as well as a disruption in the timing of receipt of ad valorem taxes from any such bankrupt entities.

**THE EFFECT OF THE FINANCIAL INSTITUTIONS ACT OF 1989 ON TAX COLLECTIONS OF THE DISTRICT . . .** The “Financial Institutions Reform, Recovery and Enforcement Act of 1989” (“FIRREA”), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens, and the collection of penalties and interest on



delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

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

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

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

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

**FUTURE DEBT . . .** The District has the right to issue obligations other than the Bonds, including tax anticipation notes, bond anticipation notes, and refunding bonds and notes and to borrow for any valid corporate purpose. The District has no unlimited tax bonds authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The District is also authorized to issue bonds to refund or redeem its outstanding debt. The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

**FORWARD-LOOKING STATEMENTS . . .** The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District’s water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area’s ability

to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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

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

The area will report semi-annually on the progress of their control measures. Under the EACs, attainment must have been demonstrated by 2007. EPA approved the photochemical modeling in support of the attainment demonstration for the 8-hour ozone standard within the Austin Area on August 15, 2005. EPA also approved the Austin EAC “CAAP” which includes control measures and demonstrates maintenance of the standard through 2012 (including a vehicle inspection and maintenance (I/M) program). These steps and any EPA/TCEQ responses could impact the economy and communities in the Austin Area.

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

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

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

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

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

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

**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.

## THE DISTRICT

**GENERAL . . .** The District was created by an order of the Texas Water Rights Commission, predecessor to the Texas Natural Resource Conservation Commission, now called the Texas Commission on Environmental Quality (“TCEQ”) on February 17, 1972 as Lakeway Municipal Utility District No. 1 and operates as a municipal utility district pursuant to the provisions of Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of the State of Texas applicable to municipal utility districts.

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; and the collection, transportation, and treatment of wastewater. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is subject to the continuing supervision of the TCEQ and is primarily located within the boundaries of the City of Lakeway and the Village of the Hills, and partially within the extraterritorial jurisdiction of the Village of the Hills respectively. The District’s name was changed to Lakeway Municipal Utility District on November 7, 1983.

**STATUS OF DEVELOPMENT . . .** The District contained approximately 2,795 acres at creation. Subsequent annexations from 1972 through 1988 increased the area to approximately 3,368 acres. In June 1998, the District excluded approximately 1,500 acres of undeveloped land in conjunction with the issuance of refunding bonds, and the redefined area of the District is now approximately 1,868 acres.

**LITIGATION . . .** There is no pending or threatened litigation affecting the District.

**LOCATION . . .** The District is situated on the southwest shore of Lake Travis and is located approximately 20 miles northwest of the central business district of the City of Austin. The District contains approximately 1,868 acres of land and is mostly within the boundaries of the City of Lakeway and the Village of the Hills and partially within the extraterritorial jurisdiction of the Village of the Hills, respectively

## 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 Saturday of May in even numbered years only. All of the Directors reside within the District. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Larry Burmeier	President	May 2022
Jerry Hietpas	Vice President	May 2022
Don Goff	Secretary	May 2020
Lawrence M. Christian	Treasurer	May 2020
Tom Brewer	Director	May 2020

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

Engineer: The District’s primary consulting engineer is Castleberry Engineering & Consulting P.L.L.C.

Consulting Engineer: The District’s secondary consulting engineer is HDR Engineering Inc.

Auditor: The District’s financial statements for the year ended September 30, 2017, were audited by PMB Helin Donovan, certified public accountants. See “APPENDIX A” for a copy of the District’s audited September 30, 2017 financial statements. PMB Helin Donovan has served the District in this capacity since 2010.

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

Underwriter's Counsel: Norton Rose Fulbright US LLP has been engaged as Underwriter's Counsel in connection with the issuance of the Bonds. The fees of Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

## THE SYSTEM

**REGULATION . . .** The water and wastewater facilities (collectively, the "System"), the purchase, acquisition and construction of which have been permanently financed by the District, have been designed in accordance with accepted engineering practices and approved by all governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities.

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

**WATER SUPPLY AND DISTRIBUTION . . .** The source of the District's water supply is Lake Travis which is in the Colorado River Watershed. The District's water system consists of three water treatment plants with a combined rated capacity of approximately 7.2 million gallons of treated water per day ("mgd") based on TCEQ criteria. The District has formulated and implemented a water conservation plan.

The District has a 2.952 million gallon capacity of overhead and ground water storage and a capacity of 1,811,000 gallons for clearwell storage at the water plant sites. Water distribution consists of 57 miles of water lines ranging in size from 1" to 16" as well as 320 fire hydrants. The District has over 4,000 water customers.

The District has entered into reciprocal interconnection agreements with the Hurst Creek Municipal Utility District and the Travis County Water Control and Improvement District No. 17, whereby either party may purchase treated water to the extent that the other party has surplus water available.

**WATER PURCHASE CONTRACT . . .** By contract with the Lower Colorado River Authority (the "Authority"), dated November 28, 1994 and amended December 22, 1998, September 24, 1999, August 25, 2000, and April 18, 2007, the District obtained the right to purchase a maximum of 1 billion gallons of raw water per annum from Lake Travis for municipal purposes. The District pays for all necessary pumping facilities and metering equipment. Presently, the District pays the Authority \$0.45 per each 1,000 gallons of water withdrawn from Lake Travis under a minimum take-or-pay provision of 1 billion gallons of raw water per annum.

**WASTEWATER COLLECTION . . .** The District owns and operates 39 miles of wastewater collection lines and 24 pumping stations that serve more than 2,900 wastewater customers through the following treatment plants: (a) the Palos Verdes Water Recycling Plant, with a 810,000 gpd capacity, serves the Lakeway east area of the District; and (b) the Highlands Blvd. Water Recycling Plant, with a capacity of 400,000 gpd serves the Lakeway west area of the District. In addition, the lift stations and wastewater collection lines range in size from 4" to 12".

The District's treated effluent is used to irrigate two golf courses, Lakeway Boulevard median and other open space areas. Raw water from Lake Travis is available to supplement the District's effluent to meet irrigation demands. Treated effluent is also disposed of by irrigating a forty-five acre cedar tract owned by the District.

**WATER AND WASTEWATER SYSTEM . . .** *Water Supply Facilities:* The District's current water treatment capacity is 5.7 mgd which is considered adequate for 5,297 Living Unit Equivalent ("LUE") based on a maximum day demand of 1,076 gpd per LUE (0.75 gpm per LUE). The demand during the summer of 2008 included 4,170 residential and commercial LUE's. The projected ultimate demand for the service area inside and outside the District is approximately 4,933 LUE's.

The existing water storage capacity of 3.19 million gallons exceeds the minimum regulatory requirements and is considered adequate for ultimate development. However, it is not adequate for the high water demands that the District experiences during summer months and in drought conditions.

*Wastewater Treatment Facilities:* The estimated total capacity of the existing wastewater treatment plants is 5,224 LUE's. The existing number of wastewater LUE's which are being served within the permitted average daily flow is approximately 2,479. The projected ultimate demand is 4,850.

**SYSTEM REVENUES . . .** The Bonds are payable from the levy of ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Although the Bonds are secured solely by the levy of ad valorem taxes, the District may use net revenues from the operation of its System to pay the Bonds. The District has historically devoted net water revenues of the System to payment of the debt service on its bonded debt. No representation is made regarding whether the District will continue to use all or a portion of any, net revenues from its System to make payments on the Bonds.

**TABLE 1 – RATE AND FEE SCHEDULE . . .** The Board of Directors of the District establishes rates and fees for water and wastewater service, subject to change from time to time. The following schedule sets forth rates and fees for the District’s water and wastewater service for the fiscal year beginning October 1, 2017:

**Base Rate**

<u>Meter Size</u>	<u>Base Bi-Monthly Rate</u>	<u>Additional Charge by Volume (Per 1,000 Gallons)</u>
5/8"x 3/4"	\$ 40.00	\$ 2.50 0 to 15,000 gallons 3.25 15,001 to 30,000 gallons 3.75 30,001 to 50,000 gallons 4.30 50,001 to 80,000 gallons 5.00 80,001 to 100,000 gallons 5.75 Over 100,000 gallons

**Wastewater**

Due to higher wastewater density, restaurants and food establishments will have a multiplier of “2” applied to the volume rate. Other commercial customers currently have a density multiplier of “1”.

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**FINANCIAL STATEMENT**

**TABLE 2 - GENERAL FUND REVENUE AND EXPENDITURE HISTORY . . .** The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared from information obtained from the District's financial statements and records. Reference is made to such statements for further and more complete information. Also see "APPENDIX A – Audited Financial Statements."

	For Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<b>Revenues:</b>					
Charges for Water Service	\$ 3,207,235	\$ 3,281,815	\$ 2,926,497	\$ 2,899,748	\$ 3,225,835
Charges for Wastewater Service	1,685,095	1,700,727	1,695,624	1,699,630	1,631,261
Property Taxes	219,944	206,171	104,527	145,928	108,295
Tap Connection and Inspection Fees	75,476	74,654	80,020	107,134	129,560
Investment Earnings	31,213	10,841	1,951	1,144	2,177
Penalties and Interest	37,286	40,255	34,776	36,980	43,027
Intergovernmental revenue	-	15,000	180,000	-	-
Other	119,306	61,559	90,054	252,709	243,730
<b>Total Revenues</b>	<b>\$ 5,375,555</b>	<b>\$ 5,391,022</b>	<b>\$ 5,113,449</b>	<b>\$ 5,143,273</b>	<b>\$ 5,383,885</b>
<b>Expenditures:</b>					
Water Service	\$ 769,041	\$ 813,766	\$ 782,235	\$ 857,343	\$ 910,632
Wastewater Service	536,838	528,484	544,214	504,283	496,110
Purchased Water Service	-	-	-	-	-
Salaries, Benefits, and Payroll Taxes	1,690,072	1,641,018	1,577,316	1,538,396	1,464,767
Accrued retirement expense	-	(310,334)	310,334	-	-
Contracted Services	328,852	350,871	285,327	296,762	357,824
Professional Fees	232,827	138,416	161,848	132,274	161,716
Supplies and Maintenance	32,845	38,817	27,237	36,799	27,048
Other	-	-	-	-	-
Capital Outlay	277,742	178,574	256,147	348,026	236,622
<b>Total Expenditures</b>	<b>\$ 3,868,217</b>	<b>\$ 3,379,612</b>	<b>\$ 3,944,658</b>	<b>\$ 3,713,883</b>	<b>\$ 3,654,719</b>
<b>Reserve Accounts:</b>					
Capital construction expenses	\$ -	\$ -	\$ -	\$ -	\$ 57,544
Excess of Revenues Over/Under	\$ 1,507,338	\$ 2,011,410	\$ 1,168,791	\$ 1,429,390	\$ 1,671,622
Operating Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
Operating Transfers Out	(940,576)	(870,984)	(1,626,555)	(885,150)	(1,654,392)
Excess of Revenues and Other Sources Over/Under Expenditures	\$ 566,762	\$ 1,140,426	\$ (457,764)	\$ 544,240	\$ 17,230
Beginning Fund Balance	\$ 5,946,684	\$ 4,806,258	\$ 5,264,022	\$ 4,719,782	\$ 4,702,552
Ending Fund Balance	\$ 6,513,446	\$ 5,946,684	\$ 4,806,258	\$ 5,264,022	\$ 4,719,782
Active Water Connections	4,129	4,113	4,135	4,105	4,671
Active Wastewater Connections	3,096	3,072	3,084	3,059	3,024

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**TABLE 3 - DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 9/30	Outstanding Debt <sup>(a)</sup>			The Bonds			Total Debt Service Requirements
	Principal	Interest	Total	Principal	Interest <sup>(b)</sup>	Total	
2018	\$ 1,470,000	\$ 568,027	\$ 2,038,027	\$ -	\$ -	\$ -	\$ 2,038,027
2019	1,200,000	321,551	1,521,551	250,000	94,950	344,950	1,866,501
2020	1,125,000	283,656	1,408,656	260,000	86,288	346,288	1,754,944
2021	1,005,000	248,675	1,253,675	270,000	75,888	345,888	1,599,562
2022	830,000	217,523	1,047,523	280,000	70,488	350,488	1,398,010
2023	375,000	192,104	567,104	295,000	64,888	359,888	926,991
2024	395,000	182,354	577,354	305,000	58,988	363,988	941,341
2025	410,000	171,294	581,294	315,000	49,838	364,838	946,131
2026	430,000	158,994	588,994	330,000	42,750	372,750	961,744
2027	450,000	143,944	593,944	345,000	32,850	377,850	971,794
2028	470,000	127,631	597,631	365,000	22,500	387,500	985,131
2029	490,000	108,831	598,831	385,000	11,550	396,550	995,381
2030	515,000	89,231	604,231	-	-	-	604,231
2031	535,000	68,631	603,631	-	-	-	603,631
2032	560,000	47,231	607,231	-	-	-	607,231
2033	585,000	24,131	609,131	-	-	-	609,131
	<u>\$ 10,845,000</u>	<u>\$ 2,953,807</u>	<u>\$ 13,798,807</u>	<u>\$ 3,400,000</u>	<u>\$ 610,975</u>	<u>\$ 4,010,975</u>	<u>\$ 17,809,782</u>

(a) Excludes the Refunded Bonds.

(b) Interest calculated at the rates shown on the inside cover page.

**TABLE 4 - TAXABLE ASSESSED VALUE**

2014 Certified Taxable Assessed Valuation .....	\$ 1,039,623,881	(a)
2015 Certified Taxable Assessed Valuation .....	\$ 1,106,119,772	(a)
2016 Certified Taxable Assessed Valuation .....	\$ 1,167,187,921	(a)
2017 Certified Taxable Assessed Valuation .....	\$ 1,248,243,751	(a)
2018 Certified Taxable Assessed Valuation .....	\$ 1,320,992,635	(a)
Gross Debt Outstanding (after Issuance of the Bonds) .....	\$ 14,245,000	(b)
Operating Fund Balance as of May 31, 2018.....	\$ 5,460,865	
2017 Tax Rates:		
Debt Service.....	\$ 0.1082	
Maintenance.....	\$ 0.0176	
Total.....	\$ 0.1258	
Debt Service Fund Balance (as of May 31, 2018) .....	\$ 2,573,121	(c)
Ratio of Gross Debt to 2018 Certified Taxable Assessed Valuation.....	1.07%	

Area of District: 1,868 Acres

(a) The Certified Taxable Assessed Valuations as provided by TCAD. See "TAXING PROCEDURES."

(b) Includes the Bonds and excludes the Refunded Bonds.

(c) Unaudited as of May 31, 2018. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 6/30/18
Lake Travis ISD	\$ 338,405,000	9.44%	\$ 31,945,432
City of Lakeway	33,555,000	28.47%	9,553,109
Travis County	705,136,179	0.59%	4,160,303
Travis County ESD #6	3,380,000	8.13%	274,794
Travis County Healthcare District	9,380,000	0.59%	55,342
Lakeway MUD	14,245,000	100.00%	14,245,000 <sup>(a)</sup>
Total Direct and Overlapping Tax Supported Debt			\$ 60,233,980
Ratio of Direct and Overlapping Tax Supported Debt to 2018 Taxable Assessed Valuation			4.56%

(a) Includes the Bonds and excludes the Refunded Bonds.

**TABLE 5 - OUTSTANDING BONDS**

Purpose	Dated Date	Series	Original Principal Amount	Outstanding Balance
Refunding	5/1/2005	2005	\$ 7,304,990	\$ 3,695,000
Water & Sewer	4/15/2009	2009	5,870,000	285,000 <sup>(a)</sup>
Water & Sewer	11/15/2013	2013	7,430,000	6,865,000
Refunding	9/6/2018	2018	3,400,000	3,400,000 <sup>(b)</sup>
Total			<u>\$ 24,004,990</u>	<u>\$ 14,245,000</u>

(a) Balance excludes the Refunded Bonds being refunded with this Bond issue.

(b) In process of issuance.

**TABLE 6 - CASH AND INVESTMENT BALANCES<sup>(a)</sup>**

General Fund.....	\$ 5,460,865
Debt Service Fund.....	2,573,121 <sup>(b)</sup>
Capital Projects Fund.....	13,580,495

(a) Unaudited as of May 31, 2018.

(b) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

**INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . .** Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment



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

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

**TABLE 7 - CURRENT INVESTMENTS**

As of May 31, 2018, the District's investable funds were invested in the following categories:

<u>Investments</u>	<u>Market Value</u>	<u>% of Total</u>
Cash	\$ 293,126	1.36%
CD's	8,534,270	39.48%
TexPool	12,787,085	59.16%
	<u>\$ 21,614,482</u>	<u>100.00%</u>

**TAX DATA**

**TABLE 8 - TAX COLLECTIONS**

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District's Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

<u>Fiscal Year Ended 9/30</u>	<u>Estimated Population</u>	<u>Taxable Assessed Valuation</u>	<u>Tax Rate</u>	<u>Tax Levy</u>	<u>Current Collections</u>		<u>Total Collections</u>	
					<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
2015	9,766	\$ 1,039,623,881	\$ 0.1836	\$ 1,908,954	\$ 1,895,001	99.27%	\$ 1,914,947	100.31%
2016	9,766	1,106,119,772	0.1536	1,699,468	1,691,055	99.50%	1,710,261	101.14%
2017	9,766	1,167,187,921	0.1360	1,591,144	1,581,945	99.42%	1,587,362	99.76%
2018	9,766	1,251,845,619	0.1258	1,574,822	1,550,460 <sup>(1)</sup>	98.67% <sup>(1)</sup>	1,564,569 <sup>(1)</sup>	99.34%
2019	9,766	1,320,992,635	N/A	N/A	N/A	N/A	N/A	N/A

(1) Partial collections as of June 30, 2018.

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**TABLE 9 - DISTRICT TAX RATE DISTRIBUTION**

Fiscal Year Ended 9/30	Tax Rate	Debt Service (Debt Service Fund)	Maintenance and Operations (General Fund)
2014	\$ 0.1963	\$ 0.1812	\$ 0.0151
2015	0.1836	0.1736	0.0100
2016	0.1536	0.1350	0.0186
2017	0.1360	0.1171	0.0189
2018	0.1258	0.1082	0.0176

**TAX RATE LIMITATION . . .** The District’s tax rate for debt service on the Bonds is legally unlimited as to rate and amount.

**MAINTENANCE TAX . . .** The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating the District’s improvements, if such maintenance tax is authorized by a vote of the District’s electors. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on May 12, 2007, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under “District Tax Rates,” the District levied a 2017 maintenance and operation tax of \$0.0176/\$100 assessed valuation. See “THE DISTRICT – General.”

**TABLE 10 - PRINCIPAL TAXPAYERS**

The following list of principal taxpayers was provided by the Travis Central Appraisal District based on the 2018 tax roll of the District, which reflect ownership as of January 1 of each year shown.

Taxpayer	Taxable Assessed Value	% of 2018 Taxable Assessed Valuation
Ashford Lakeway LP	\$ 30,388,779	2.30%
Lakeway Commons 900 Ltd.	16,983,175	1.29%
Genecov Investments Ltd.	10,991,088	0.83%
Decoux, Jeffrey J.	5,963,141	0.45%
Clubcorp Golf of Texas L.P.	5,068,656	0.38%
Courtney, Craig & Suzanne	3,278,072	0.25%
Rockey-Stewart Family LLC	3,128,507	0.24%
Texas Condoshares Inc.	3,005,235	0.23%
Al Noor Store Inc.	2,790,785	0.21%
Moore Family 2015 Revocable Trust	2,776,224	0.21%
	<u>\$ 84,373,662</u>	<u>6.39%</u>

**TAX ADEQUACY FOR DEBT SERVICE**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2018 Certified Taxable Assessed Valuation and utilize tax rates adequate to service the District’s total debt service requirements, including the Bonds (at the rates shown on the inside front cover) and excluding the Refunded Bonds. No available debt service funds are reflected in these computations. See “RISK FACTORS – Impact on District Tax Rates.”

Average Annual Debt Service Requirements on the Bonds (2018-2033).....	\$ 1,113,111
\$0.0887 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections .....	\$ 1,113,134
Maximum Annual Debt Service Requirements on the Bonds (2018) .....	\$ 2,038,027
\$0.1624 Tax Rate on 2018 Certified Taxable Assessed Valuation @ 95% collections .....	\$ 2,038,027

## TAXING PROCEDURES

**AUTHORITY TO LEVY TAXES . . .** The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, its other remaining outstanding bonds, and any additional bonds payable from taxes which the District may hereafter issue (see “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 is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – Tax Rate Limitation.”

**PROPERTY TAX CODE AND COUNTY WIDE APPRAISAL DISTRICT . . .** The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis Central Appraisal District has the responsibility for appraising property for all taxing units within Travis County, including the District. Such appraisal values are subject to review and change by the Travis Central Appraisal Review Board (the “Appraisal Review Board”).

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

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

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

***Freeport Goods and Goods-in-Transit Exemption:*** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. 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. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The District has not taken action to tax goods-in-transit.

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

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

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

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

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

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

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

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

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

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

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

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

## **LEGAL MATTERS**

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

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.

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## TAX MATTERS

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

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate, and (b) covenants of the District relating to arbitrage and the application of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to comply with these representations or covenants could cause the interest on the Bonds to become included in gross income retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for the interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included to gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with the covenants and 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 Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with the proceeds of the Bonds. Bond Counsel’s opinion represents its legal judgement based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

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

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

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

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

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

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

**INFORMATION REPORTING AND BACKUP WITHHOLDING . . .** Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

**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.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligation, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank"



described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

### CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has 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") through its electronic municipal market access system. This Information will be available free of charge by the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 10 and in APPENDIX A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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

The District's current fiscal year end is September 30, the Annual Financial Information must be provided by the last day of March in each year, and the Financial Statements must be provided by September 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

**NOTICE OF CERTAIN EVENTS . . .** The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, 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 status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into of 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, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement or a trustee. 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 and will be available to the public free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

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

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

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 only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

#### **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Specialized Public Finance Inc. (the “Financial Advisor”), which firm was employed in 2009 as Financial Advisor to the District. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

The Financial Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as 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.

#### **OFFICIAL STATEMENT**

**PREPARATION . . .** The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See “The District.” The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources: “THE DISTRICT” – Jones-Heroy & Associates, Inc., Round Rock Independent School District, various area commercial and retail establishments and the Developers; “THE DEVELOPERS” – Lakeway Development, Inc.; “THE SYSTEM” – Engineer; “FINANCIAL STATEMENT” – Travis Central Appraisal District; “- Estimated Overlapping Debt Statement” – Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” and “WATER AND SEWER OPERATIONS” – Audits, Records and Tax Assessor/Collector; “MANAGEMENT” – District Directors; “PRO-FORMA DEBT SERVICE REQUIREMENTS” – Financial Advisor; “THE BONDS,” “LEGAL MATTERS,” “TAXING PROCEDURES,” “CONTINUING DISCLOSURE OF INFORMATION” (except in the subheading “Compliance with Prior Undertakings”) and “TAX MATTERS” – McCall, Parkhurst & Horton, L.L.P.

**CONSULTANTS . . .** In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

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

**Auditor:** The District’s financial statements for fiscal year ending September 30, 2017 were audited by PMB Helin Donovan, Certified Public Accountants, and excerpts of the District’s Audited Financial Statements as of September 30, 2017 have been included as APPENDIX A in reliance upon such firm’s authority in the field of accounting.

**ANNUAL AUDITS . . .** Under Texas Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120

days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year so long as the District has bond outstanding. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Lakeway Municipal Utility District, as of the date shown on the first page hereof.

/s/ JERRY BURMEIER  
President, Board of Directors  
Lakeway Municipal Utility District

/s/ DON GOFF  
Secretary, Board of Directors  
Lakeway Municipal Utility District

**SCHEDULE I**

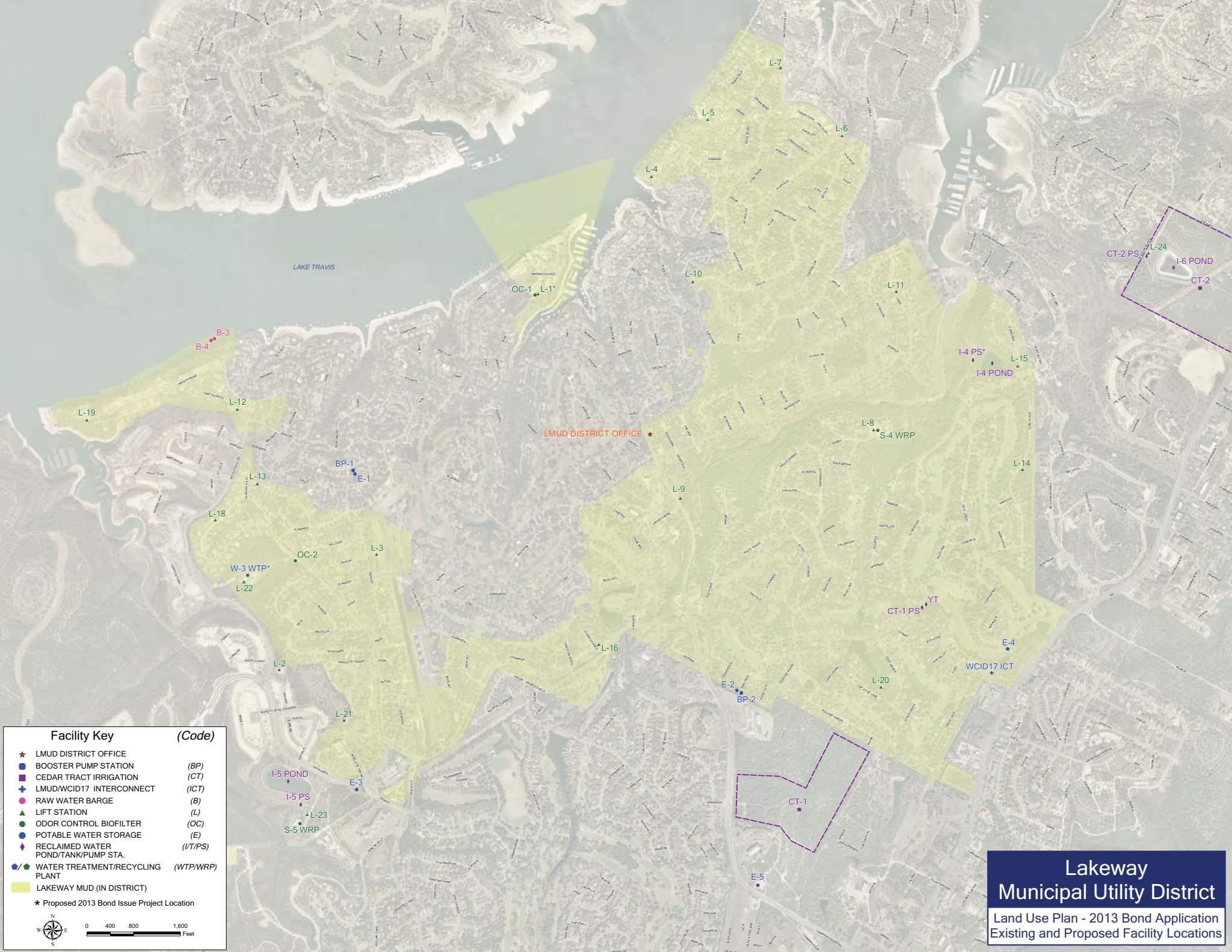
**SCHEDULE OF REFUNDED BONDS**

<u>Unlimited Tax Bonds, Series 2009</u>		
<u>Amount</u>	<u>Maturity</u>	<u>Coupon</u>
\$ 305,000	9/1/2019	4.375%
320,000	9/1/2020	4.375%
335,000	9/1/2021	4.375%
355,000	9/1/2022	4.375%
380,000	9/1/2023	4.375%
400,000	9/1/2024	4.375%
420,000	9/1/2025	4.375%
445,000	9/1/2026	4.375%
470,000	9/1/2027	4.375%
500,000	9/1/2028	4.500%
530,000	9/1/2029	4.500%
\$ 4,460,000		

Redemption Date: 9/17/2018  
Redemption Price: 100%

**AERIAL BOUNDARY MAP**

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**Facility Key (Code)**

- ★ LMUD DISTRICT OFFICE
- BP BOOSTER PUMP STATION (BP)
- CT CEDAR TRACT IRRIGATION (CT)
- ⊕ LMUD/WCID17 INTERCONNECT (ICT)
- ▲ B RAW WATER BARGE (B)
- ▲ L LIFT STATION (L)
- OC ODOR CONTROL BIOFILTER (OC)
- P POTABLE WATER STORAGE (E)
- ◆ I/IT/PS RECLAIMED WATER POND/TANK/PUMP STA. (I/IT/PS)
- /● WTP/WRP WATER TREATMENT/RECYCLING PLANT (WTP/WRP)
- LAKEWAY MUD (IN DISTRICT)

★ Proposed 2013 Bond Issue Project Location

**Lakeway  
Municipal Utility District**

Land Use Plan - 2013 Bond Application  
Existing and Proposed Facility Locations

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**APPENDIX A**

**Audited Financial Statements**

The information contained in this appendix has been excerpted from the audited financial statements of Lakeway Municipal Utility District for the fiscal year ended September 30, 2017. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

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## Report of Independent Auditor

Board of Directors  
Lakeway Municipal Utility District:

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the governmental activities and each major fund of the Lakeway Municipal Utility District (the "District") as of and for the year ended September 30, 2017, 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*

The District's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement 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 opinion.

### *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 Lakeway Municipal Utility District as of September 30, 2017, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note B to the financial statements, the beginning fund balance of the government wide statements and capital project fund, were corrected as of September 30, 2016. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 8 and the pension information on pages 29 through 33 as well as the budgetary comparison information on pages 34 and 35, 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 consider 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 financial statements as a whole. The supplemental schedules on pages 36 through 49 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental schedules on pages 39 through 48 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The supplemental schedules on pages 37 through 38, and page 49 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**PMB HELIN DONOVAN, LLP**

*PMB Helin Donovan, LLP*

February 15, 2018  
Austin, Texas

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended September 30, 2017

**PURPOSE**

These financial statements include this discussion and analysis of Lakeway Municipal Utility District's (District) overall financial position and results of operations in a format that will facilitate the public's understanding of reported data. This discussion provides an overview of our financial activities for the fiscal year ended September 30, 2017.

**OVERVIEW**

We (the District) are on a sound financial footing. Standard and Poor's Ratings Services established an 'AA-' credit rating for the District in 2017. The financial statements show continued growth in net position and taxpayer equity. Our budgeting and rate setting process is effective. Management and the Board of Directors effectively monitor and control expenses. The annual financial report, beginning on page 9, provides detailed schedules of the financial position. The following discussion will refer to those schedules.

**FINANCIAL STATEMENTS**

The government wide financial statements (the Statement of Net Position and the Statement of Activities) and the governmental fund financial statements are combined and are presented in pages 9 and 10, and report our financial information.

The Statement of Net Position presents information on all of our assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether our financial position is improving or deteriorating.

The Statement of Activities presents information showing how our net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund financial statements report our operations on a current resources measurement basis rather than on the economic resources measurement basis contained in the government-wide financial statements by providing information on our most significant funds. The governmental funds balance sheet reports financial information for the general, debt service, and capital project funds in separate columns because we believe each to be a major fund and are particularly important to financial statement users. The governmental funds revenues, expenditures, and changes in fund balances also reports the three major funds in separate columns, and reports the expenses, program revenues, and general revenues for each fund.

**STATEMENT OF NET POSITION**

We ended fiscal year 2017 with \$26,331,367 in total net position. This was made up of \$42,495,833 in assets, comprised of cash, investments, accounts receivable, and capital assets, and with liabilities of \$16,640,100 including accounts payable, security deposits payable, salaries and benefits payable, and long-term liabilities (debt service and net pension liability). See page 9.

**STATEMENT OF ACTIVITIES**

Program revenues totaled \$4,967,806, general revenue totaled \$1,861,241, other government funds totaled \$693,500, and total revenue for the year was \$7,522,478. Total expenses for the year were \$5,381,318, resulting in an increase in net position of \$2,141,160. See page 10.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Year Ended September 30, 2017**  
**(Continued)**

**CONDENSED FINANCIAL STATEMENTS**

**Table I**  
**Condensed Schedules of Net Position**  
**As of September 30, 2017 and 2016**

	Governmental Activities	
	2017	2016
Current assets	\$ 16,876,519	\$ 16,252,177
Capital assets (net of depreciation)	24,969,645	24,744,493
Other assets and deferred outflows	1,164,579	803,520
<b>Total assets</b>	<b>41,010,743</b>	<b>41,800,190</b>
Current liabilities	666,598	718,525
Deferred inflows	39,276	-
Long-term liabilities	15,973,502	16,891,458
<b>Total liabilities</b>	<b>16,682,986</b>	<b>17,609,983</b>
Net Position:		
Invested in capital assets	4,979,933	4,679,044
Restricted	850,659	495,308
Unrestricted	20,500,875	19,015,855
<b>Total net position</b>	<b>\$ 26,331,367</b>	<b>\$ 24,190,207</b>

**Condensed Schedules of Activities**  
**For the Years ended September 30, 2017 and 2016**

	Governmental Activities	
	2017	2016
Expenses:		
Program expenses	\$ 3,564,556	\$ 3,479,277
Capital outlay	112,264	136,828
Debt service	623,542	670,042
Depreciation	1,080,956	1,131,237
<b>Total expenses</b>	<b>5,381,318</b>	<b>5,417,384</b>
Revenues:		
Program revenues	4,967,806	5,057,195
General revenues	1,861,242	1,876,603
Other sources of revenues	693,500	5,152,697
<b>Total revenues</b>	<b>7,522,478</b>	<b>12,086,496</b>
Change in net position	2,141,160	6,880,812
Beginning of year	24,190,207	17,521,095
End of year	<b>\$ 26,331,367</b>	<b>\$ 24,190,207</b>

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended September 30, 2017  
(Continued)

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

The focus of the presentation of our governmental funds is to provide information on inflows, outflows, and balances of spendable resources. Such information is useful in assessing our financing requirements. In particular, unreserved fund balance may serve as a useful measure of our net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the governmental funds combined ending fund balances increased \$538,872 over prior year to \$17,013,934. Approximately 6% of this total is a nonspendable noncurrent receivable balance. The restricted funds of \$850,659, or 5%, represent debt service funds restricted for principal and interest payments on long term debt. The unassigned fund balance of \$5,521,915, or 32%, represents resources whose use is constrained by limitations that the District imposes upon itself through decisions made by the Board of Directors. The remaining balance, \$9,649,829, or 57%, is allocated to Capital Improvement Construction projects of \$3,839,153 and \$1,116,000 for fund balance and rate stabilization.

**SOURCE OF FUNDS**

We generate operating funds in two ways:

**Rates**

Revenue is received through bi-monthly customer billings for water and wastewater service. We had 4,235 active water connections as of September 30, 2017. This was an increase of 100 connections over the prior fiscal year. We had 3,096 active wastewater connections as of September 30, 2017. This was an increase of 24 connections over the prior fiscal year.

Rates are calculated annually and reviewed in a mid-year rate audit. Rates are based upon actual costs and revenues in the most recent twelve-month period running from June 1st to May 31st, after adjustments for known and measurable change. Generally, the rates will change annually. In FY 2017, water base rates decreased from \$23.00 to \$20.00 and wastewater base rates decreased from \$17.00 to \$14.00. Water volume rate charges remained the same: 0-15,000 gallons (\$2.50 per thousand); 15,001-30,000 (\$3.25); 30,001-50,000 (\$3.50); 50,001-80,000 (\$4.00); 80,001-100,000 (\$4.50); and over 100,000 (\$5.00). Rates were adequate to cover the projected cost of operations. See page 30.

**Ad Valorem Taxes**

Tax charges of \$0.1360 per \$100 valuation, were collected for general maintenance and operations and debt service. 99.42% of the taxes levied in 2016 were collected and the remaining .58% is considered collectable. Total assessed valuation increased from \$1.1 billion in fiscal 2015 to \$1.17 billion in fiscal 2016.

All Ad valorem taxes are applied to principal and interest payments for wastewater debt or for wastewater operations and maintenance. The remainder of the principal and interest payment comes from water rate revenue. Principal and interest payments made by the District during the fiscal year ended September 30, 2017 totaled \$1,340,000.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended September 30, 2017  
(Continued)

**OPERATING REVENUES AND EXPENDITURES**

Operating revenues and expenses are budgeted annually. The administrative staff develops the budget then it is reviewed and approved by the Board of Directors. During the year the budget is reviewed frequently and all significant deviations are discussed with and approved by the Board of Directors. There is a formal mid-year review that may result in rate changes; however, there was no mid-year rate change for fiscal year 2017.

**REVENUES**

General Fund revenues for the year totaled \$5,375,555 or approximately \$517,275 greater than originally budgeted in fiscal year 2017. The 2017 budget variances were due to higher volume than expected for water service.

**EXPENDITURES**

General Fund expenditures of \$3,868,217 and \$3,379,612 for fiscal years 2017 and 2016, respectively, were approximately \$243,915 lower and \$361,042 lower than budgeted expenditures for fiscal years 2017 and 2016, respectively. The increase and decrease were primarily due to the accrual adjustment for the net pension liability and slightly different than expected variable costs.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

Our investment in capital assets, net of accumulated depreciation, as of September 30, 2017, was \$24,969,644, an increase of \$225,152 over the total of \$24,744,492 as of September 30, 2016. See Note E for additional information on capital assets.

**Long-Term Debt**

At the end of the fiscal year, we had total bonded debt outstanding of \$15,305,000, a decrease of 9% from the prior year outstanding amount of \$16,645,000. See Note G for additional information on long-term debt.

**WATER/WASTEWATER TREATMENT PLANTS AND COLLECTION SYSTEMS**

**Treatment Plants**

We have one water and two wastewater treatment plants. The plants were completed or modernized in May of 2003. These plants have the capacity to serve us through build out. Government regulatory agencies are constantly revising standards, so future actions may be necessary.

**Distribution and Collection System**

Our water distribution system is in good condition, even though some of the underground piping is forty years old and subject to breaks and leaks. During the 1980's some polybutylene piping was installed which has proven defective. We received financial compensation from the manufacturer for repair and replacement. We have determined that it is more economical to repair and replace piping when it fails than implement a capital intensive replacement program.

Similarly, the wastewater collection system is aging. We have a continuing program to monitor and repair these pipelines.



**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Management's Discussion and Analysis (Unaudited)  
For the Year Ended September 30, 2017  
(Continued)

**DIRECTORS, MANAGEMENT AND OPERATING PERSONNEL**

**Board of Directors**

We receive overall direction from a five-person Board of Directors. All are volunteer residents of the District. They are elected by the taxpayers and serve a staggered four-year term. See page 49.

**Management**

A professional General Manager controls daily operations. See page 49.

**Personnel**

We employ 22 full time and -0- part-time employees. There were two turnovers in employee positions in fiscal year 2017.

State regulations require specific levels of job qualifications for operations and management personnel. All concerned personnel were at or above the required level of certification through the fiscal year 2017. We have an incentive program to encourage employees to obtain more advanced certifications.

We provide retirement, disability and death benefits for all full-time employees through a defined benefit pension plan operated by the statewide Texas County & District Retirement System (TCDRS). We fund the plan by monthly contributions from both employees and the District. The employee contributes 7% by payroll deduction. The actuarially determined rate paid by the District for calendar year 2017 was 12%. The District contributed \$140,943 for the year ended September 30, 2017. See Note M.

**Contacting the District's Financial Management**

This financial report is designed to provide interested parties with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives and spends. If you have questions about this report or need additional information, contact the District office, 1097 Lohmans Crossing, Lakeway, Texas 78734.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Statement of Net Position and Governmental Funds Balance Sheet  
As of September 30, 2017

	General Fund	Debt Service Fund	Capital Projects Funds	Total	Adjustments (Note N)	Statement of Net Position
<b>ASSETS</b>						
Cash and investments	\$ 5,016,523	\$ 1,016,680	\$ 8,744,629	\$ 14,777,832	-	\$ 14,777,832
Taxes receivable, net	5,090	75,171	-	80,261	-	80,261
Other receivables, net	901,044	-	905,200	1,806,244	-	1,806,244
Prepayments and other assets	16,854	-	-	16,854	-	16,854
Due from/to other funds	166,022	(166,022)	-	-	-	-
Due from Rough Hollow - current	195,328	-	-	195,328	-	195,328
Due from Rough Hollow - noncurrent	649,669	-	-	649,669	-	649,669
Deferred outflows	-	-	-	-	-	-
Capital assets, net	-	-	-	-	-	-
Land and construction in progress	-	-	-	-	6,421,291	6,421,291
Capital assets	-	-	-	-	18,548,354	18,548,354
Total assets	<u>\$ 6,950,530</u>	<u>925,829</u>	<u>9,649,829</u>	<u>\$ 17,526,188</u>	<u>\$ 24,969,645</u>	<u>\$ 42,495,833</u>
Deferred outflows of resources						
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 233,294	\$ -	\$ -	\$ 233,294	\$ -	\$ 233,294
Security deposits payable	198,770	-	-	198,770	-	198,770
Salaries/benefits payable	-	-	-	-	187,819	187,819
Accrued interest payable	-	-	-	-	46,715	46,715
Deferred inflows	5,020	75,170	-	80,190	(80,190)	-
Net pension liability	-	-	-	-	668,502	668,502
Long-term liabilities:	-	-	-	-	-	-
Due within one year	-	-	-	-	1,470,000	1,470,000
Due after one year	-	-	-	-	13,835,000	13,835,000
Total liabilities	<u>437,084</u>	<u>75,170</u>	<u>-</u>	<u>512,254</u>	<u>16,127,846</u>	<u>16,640,100</u>
Deferred inflows of resources						
Fund balances:						
Nonspendable	991,531	-	-	991,531	(991,531)	-
Restricted for debt service	-	850,659	-	850,659	(850,659)	-
Assigned to construction	-	-	9,649,829	9,649,829	(9,649,829)	-
Unassigned	5,521,915	-	-	5,521,915	(5,521,915)	-
Total fund balances	<u>6,513,446</u>	<u>850,659</u>	<u>9,649,829</u>	<u>17,013,934</u>	<u>(17,013,934)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 6,950,530</u>	<u>925,829</u>	<u>9,649,829</u>	<u>\$ 17,526,188</u>	<u>\$ -</u>	<u>\$ -</u>
Net Position:						
Net investment in capital assets	-	-	-	-	4,979,833	4,979,833
Restricted	-	-	-	-	850,659	850,659
Unrestricted	-	-	-	-	20,500,875	20,500,875
Total net position	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>	<u>26,331,367</u>	<u>\$ 26,331,367</u>

See accompanying notes to financial statements

**LAKELAKE MUNICIPAL UTILITY DISTRICT**  
**Statement of Activities and Governmental Funds Revenue, Expenditures, and Changes in Fund Balances**  
**For the Year Ended September 30, 2017**

	General Fund	Debt Service Fund	Capital Projects Funds	Total	Adjustments (Note O)	Statement of Activities
<b>EXPENDITURES/EXPENSES:</b>						
Service operations:						
Water service	\$ 769,041	\$ -	\$ -	\$ 769,041	\$ -	\$ 769,041
Wastewater service	536,838	-	-	536,838	-	536,838
Salaries, benefits & payroll taxes	1,690,072	-	-	1,690,072	(251,195)	1,438,877
Accrued retirement expense	-	-	-	-	225,276	225,276
Contracted services	328,852	-	-	328,852	-	328,852
Professional fees	232,827	-	-	232,827	-	232,827
Administrative supplies & maintenance	32,845	-	-	32,845	-	32,845
Capital outlay-Capitalized	165,478	-	1,140,630	1,306,108	(1,306,108)	-
Capital outlay-Not Capitalized	112,264	-	-	112,264	-	112,264
Debt service:						
Principal	-	1,340,000	-	1,340,000	(1,340,000)	-
Interest and fiscal charges	-	627,226	-	627,226	(3,684)	623,542
Accretion	-	-	-	-	-	-
Depreciation	-	-	-	-	1,080,956	1,080,956
Total expenditures/expenses	<u>3,868,217</u>	<u>1,967,226</u>	<u>1,140,630</u>	<u>6,976,073</u>	<u>(1,594,755)</u>	<u>5,381,318</u>
<b>REVENUES:</b>						
Program revenues:						
Charges for water service	3,207,235	-	-	3,207,235	-	3,207,235
Charges for wastewater service	1,685,095	-	-	1,685,095	-	1,685,095
Tap connection & inspection fees	75,476	-	-	75,476	-	75,476
Total program revenues	<u>4,967,806</u>	<u>-</u>	<u>-</u>	<u>4,967,806</u>	<u>-</u>	<u>4,967,806</u>
Net program revenue/(expense)						<u>(413,512)</u>
General revenues:						
Property taxes	219,944	1,361,801	-	1,581,745	7,533	1,589,278
Investment earnings	31,213	14,517	63,889	109,619	-	109,619
Penalties and interest	37,286	5,411	-	42,697	-	42,697
Intergovernmental revenue	-	-	-	-	-	-
Other	119,306	272	-	119,578	-	119,578
Transfers-internal activities	(940,576)	940,576	-	-	-	-
Total general revenues/transfers	<u>(332,827)</u>	<u>2,322,577</u>	<u>63,889</u>	<u>1,853,639</u>	<u>7,533</u>	<u>1,861,172</u>
Total revenues and transfers	<u>4,434,979</u>	<u>2,322,577</u>	<u>63,889</u>	<u>6,821,445</u>	<u>7,533</u>	<u>6,828,978</u>
<b>OTHER FINANCING SOURCES:</b>						
Proceeds from other governmental entities	-	-	693,500	693,500	-	693,500
Total other financing sources	<u>-</u>	<u>-</u>	<u>693,500</u>	<u>693,500</u>	<u>-</u>	<u>693,500</u>
Excess (deficiency) of revenues, transfers in, and other sources over expenditures and transfers out						2,141,160
Change in net position	566,762	355,351	(383,241)	538,872	1,602,288	2,141,160
Fund balance/net position:						
Beginning of the year	5,946,684	495,308	10,033,070	16,475,062	7,715,145	24,190,207
End of the year	<u>\$ 6,513,446</u>	<u>\$ 850,659</u>	<u>\$ 9,649,829</u>	<u>\$ 17,013,934</u>	<u>\$ 9,317,433</u>	<u>\$ 26,331,367</u>

## LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements  
For the Year Ended September 30, 2017

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Creation of District** - Lakeway Municipal Utility District (the "District") was created by an order of the Texas Water Rights Commission on February 17, 1972, under Chapter 54 of the Texas Water Code and confirmed by the electorate of Lakeway Municipal Utility District at a confirmation election held on April 28, 1972. The Board of Directors held its first meeting on February 21, 1972, and the first bonds were sold on September 1, 1972. The District is a tax-exempt entity. The accounting policies of the District conform to generally accepted accounting principles. The following is a summary of significant accounting policies.
2. **Reporting Entity** - In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in codification of Government and Financial Reporting Standards, Section 2100. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units.
3. **Government-wide and Fund Financial Statements** - The basic financial statements include both government-wide and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all governmental and business-type activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Certain indirect costs are included in the program expenses of most business-type activities. Program revenues include charges to customers for water, wastewater, and related services. Other revenues not properly included among program revenues are reported as general revenues.

The accounts of the District are organized on the basis of funds. The fund level statements focus on the governmental and proprietary funds. Each fund was established to account for specific activities in accordance with applicable regulations, restrictions, or limitations. Major funds are determined by criteria specified by the codification of Government and Financial Reporting Standards, Section 1300. Major individual governmental funds are reported as separate columns in the fund financial statements. All other funds are aggregated into governmental fund groupings.

## LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

4. **Measurement Focus, Basis of Accounting, and Financial Statement Presentation** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except for bond principal and interest which are reported as expenditures in the year due. The reported fund balance of governmental funds is considered a measure of available spendable resources.

Property taxes, interest revenue, and charges for services are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available in the fiscal period the District receives cash.

**Fund Accounting** - The accounts of the District are organized 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 separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by category and type in the financial statements. The District reports the following major governmental funds:

**General Fund** - The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

**Debt Service Fund** - The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

**Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

5. **Cash and Investments** - The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. Investments are carried at fair value, which is based on quoted market price. The District's cash deposits at year end and during the year were covered by Federal Depository Insurance or by pledged collateral held by a national bank in the District's name.

State statutes and District resolutions authorize the District's investments. The District is authorized to invest in U.S. Government obligations and its agencies or instrumentalities, no-load money market mutual funds whose investments are restricted to 100% U.S. Treasury Obligations, and the Texas Treasury Safekeeping Trust Company's public investment pool (Texpool).

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

6. **Capital Assets, Depreciation, and Amortization** - The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported as assets in the Statement of Net Position. Current year acquisitions of capital assets are reported as capital expenditures in the governmental funds financial statements. The District maintains infrastructure asset records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District capitalizes assets with cost or estimated historical cost of \$5,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, not including land and construction in progress, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	30
Infrastructure & Improvements	20-30
Machinery and Equipment	5-20

7. **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 expenses during the reporting period. Significant estimates include accumulated depreciation and net pension liability. Actual results could differ from those estimates.
8. **Capitalized Interest** - The District capitalizes net interest costs as part of the cost of constructing various projects. The amount was immaterial during the year ended September 30, 2017.
9. **Inventories and Prepaids** - The District records purchases of inventories (expendable supplies) as expenditures at the time of purchase. At year end, the amounts on hand are immaterial and therefore no inventory (asset) amount is reported in the financial statements.
10. **Long-Term Debt** - In the Statement of Net Position, long-term debt is reported as liabilities. Payments of bond principal and interest are reported as expenditures in the debt service fund.
11. **Compensated Absences** - This represents the estimated liability for employees accrued vacation and sick leave for which employees are entitled to be paid upon termination. Employees are granted working days of paid vacation in varying amounts to specified maximums depending on tenure with the District. Vacation pay is charged to operations when taken by the employees. Sick leave accrues to full-time employees to specified maximums. Upon termination of employment, unused sick leave and vacation time earned will be paid to employees up to specified maximums. Compensated absences are reported as accrued and included in salaries/benefits payable in the government wide financial statements (the statement of net position and the statement of activities). The governmental fund financial statements include only matured compensated absences payable to currently terminating employees and are included in salaries and benefits payable. The estimated liabilities include required salary-related payments.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

- 12. Classification of Fund Balance** - The District classifies its fund balance into five categories: nonspendable, restricted, committed, assigned or unassigned. Only restrictions on funds imposed by external sources are shown as restricted fund balance in the fund basis financial statements and as restricted net position on the government-wide financial statements. Classification of fund balance restraints imposed by the reporting government itself, whether by administrative policy or legislative action of the reporting government, are shown in aggregate on the governmental fund financial statements as committed fund balance. Committed fund balance includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors, the government's highest level of decision-making authority. A formal action would also be required to modify or rescind an established commitment. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, where it is classified as unassigned. Assigned fund balance is expressed by the direction of the Board of Directors or other individual with the authority to assign amounts to be used for specific purposes. Nonspendable fund balance represents amounts that are not in spendable form such as inventories or prepaid expenditures, and can include long-term receivables or amounts that are legally or contractually required to be maintained intact. Restricted fund balances have constraints on use of resources by externally imposed creditors or by constitutional provisions or enabling legislation. Unassigned fund balance is the residual classification for the general fund.
- 13. Net Position** - Net position presents the difference between assets and liabilities in the Statement of Net Position. Net position invested in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.
- 14. Deferred Inflows** - Deferred inflows arise when potential revenue does not meet both the measurable and available criteria for recognition in the current period. In general, monies received within sixty days after year-end are considered to have been for prior year services. Tax revenue reported as deferred inflows in the general fund and debt service fund is recorded as revenue in the Statement of Activities. Accordingly, deferred tax inflows are excluded in the Statement of Net Position.
- 15. Property Taxes** - Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property taxes attach as an enforceable lien on property as of January 1. The tax rates assessed for the year ended September 30, 2017, for the maintenance and operation of the District and for the payment of debt service on the District's outstanding bonds as of tax years ending 2016, were \$.0189 and \$.1171 per \$100 valuation, respectively, for a total of \$.1360 per \$100 valuation, and was based on an assessed valuation of \$1,167,187,921.

Property tax revenues are recognized in the governmental funds when they become available. Tax receivables expected to be collected within sixty days after year end are considered available. In the Statement of Activities, property tax revenues are recognized in the year for which they are levied regardless of when the tax collections are received.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

- 16. Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Authority’s participation in the Texas County and District Retirement System (“TCDRS”), an Agent Plan, and additions to/deductions from TCERS’s fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized in the TCERS net pension liability calculations when due and payable in accordance with benefit terms. The investments are stated at fair value.
- 17. Subsequent Events** - The District evaluates events that occur subsequent to the statement of financial position date of periodic reports, but before financial statements are issued for periods ending on such dates, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the District’s financial statements are issued. For the financial statements as of and for the year ending September 30, 2017, this date was February 15, 2018.

**B. RESTATEMENT**

The District restated the government wide fund balance and Capital Project fund balance to correct for proper recognition and presentation of pension expense and recognition of contract revenue as of and during the year ended September 30, 2016 as follows:

	Audited	Restated
<u>Government Wide</u>		
Fund balance as of October 1, 2016	\$ <u>23,589,929</u>	\$ <u>24,190,207</u>
Pension expense	\$ <u>635,106</u>	\$ <u>246,528</u>
Other revenue	\$ <u>-</u>	\$ <u>211,700</u>
 <u>Capital Projects Fund</u>		
Fund balanced as of October 1, 2016	\$ <u>9,821,370</u>	\$ <u>10,033,070</u>
Other revenue	\$ <u>211,700</u>	\$ <u>211,700</u>

**C. CASH AND INVESTMENTS**

Deposit and investment resources are exposed to risks that have the potential to result in losses that could impact the delivery of the District’s services. The District’s Board has adopted an Investment Policy to set forth the factors involved in the management of investment assets for the District. The District is authorized to invest funds in accordance with its investment policy, bond indentures, and the Texas Public Funds Investment Act. Authorized investments include, but are not limited to: U.S. Treasury and Federal Agency issues, certificates of deposit issued by a state or national bank domiciled in the State of Texas, repurchase agreements collateralized by U.S. Treasury or Federal Agency securities, guaranteed investment contracts (GICs), obligations of states and municipalities, SEC registered no-load money market mutual funds, and local government investment funds. The District seeks to mitigate risk by investing in compliance with the investment policy, qualifying the broker or financial institution with whom the District will transact, maintain sufficient collateralization, portfolio diversification, and limiting maturity.



**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

As of September 30, 2017, the District had the following investments:

<b>Summary of Cash and Investments by Type</b>	<b>2017</b>
Cash	\$ 183,751
Certificate of deposits	4,527,787
TexPool	10,066,294
Total investments	\$ 14,777,832
Interest income	\$ 109,618
Total investment income	\$ 109,618

***Custodial Credit Risk***

**Deposits**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. While the Board has no formal policy specific to custodial credit risk, operating bank accounts are fully collateralized with pledged securities for amounts in excess of the FDIC limit for the year ended September 30, 2017.

At September 30, 2017, the carrying amount of the District's cash and investments was \$14,777,832. The bank balance was \$415,380 and petty cash was \$300 as of September 30, 2017. The remaining amount was maintained in TexPool and certificates of deposit.

**Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the District, and are held by the counterparty, its trust or agent, but not in the District's name. The District's investment securities are not exposed to custodial credit risk because all securities are held by the District's custodial bank in the District's name.

***Concentration of Credit Risk***

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investments are insured or registered and are held by the District or its agent in the District's name.

As of September 30, 2017, the District's investment portfolio consisted of the following:

TexPool	\$10,066,294
Certificates of deposits	4,527,787
Total	\$14,594,081

## LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

### *Interest Rate Risk*

Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. Interest rate risk may be mitigated by investing operating funds primarily in shorter term securities, money market funds or similar investment pools and limiting the average maturity of the portfolio.

The District's investment policy notes that with regard to maximum maturities, the District will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the District will not directly invest operating or general funds in securities maturing more than sixteen months from the date of purchase, unless approved by the District's Board. Investment of bond proceeds shall not exceed the projected expenditure schedule of the related project. Reserve funds may be invested in securities exceeding twelve months if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.

### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the District. To help mitigate credit risk, credit quality guidelines are incorporated into the investment policy, as follows:

- Limiting investments to the safest types of securities, as listed above under the 'Concentration of Credit Risk' section; and
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the District will do business

TexPool is rated AAA by Standard and Poor's and is fully collateralized and maintains a weighted average maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The amounts can be withdrawn with limited notice. The United States government agency securities are obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk. Financial statements for TexPool may be obtained by writing TexPool, 1001 Texas Avenue, Suite 1400, Houston, TX 77002, or by calling 1-866-839-7665.

## **D. RECEIVABLES**

Property taxes receivable – Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Other receivables – Significant amounts include what is due from customers primarily from water and wastewater billings. Other receivables are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

**E. CAPITAL ASSETS**

The capital asset activity for the District for the year ended September 30, 2017 was as follows:

Capital assets	Construction		Buildings	Infrastructure and Improvements		Machinery and Equipment		Totals
	Land	in Progress						
September 30, 2016	\$ 1,901,959	\$ 3,378,703	\$ 4,314,736	\$ 51,048,050	\$ 870,354	\$ 61,513,802		
Increases	-	1,140,630	-	-	165,478	1,306,108		
Decreases	-	-	-	-	-	-		
September 30, 2017	<u>1,901,959</u>	<u>4,519,333</u>	<u>4,314,736</u>	<u>51,048,050</u>	<u>1,035,832</u>	<u>62,819,910</u>		
<b>Accumulated Depreciation</b>								
September 30, 2016	-	-	1,148,162	34,784,190	836,957	36,769,309		
Increases	-	-	137,981	904,865	38,110	1,080,956		
Decreases	-	-	-	-	-	-		
September 30, 2017	<u>-</u>	<u>-</u>	<u>1,286,143</u>	<u>35,689,055</u>	<u>875,067</u>	<u>37,850,265</u>		
<b>Capital assets, net</b>	<u>\$ 1,901,959</u>	<u>\$ 4,519,333</u>	<u>\$ 3,028,593</u>	<u>\$ 15,358,995</u>	<u>\$ 160,765</u>	<u>\$ 24,969,645</u>		

**F. CHANGES IN LONG-TERM DEBT**

Long-term debt activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable:					
Unlimited Tax Bonds:					
Series 2005	\$ 4,475,000	\$ -	\$ (780,000)	\$ 3,695,000	\$ 885,000
Series 2009	5,015,000	-	(270,000)	4,745,000	285,000
Series 2013	7,155,000	-	(290,000)	6,865,000	300,000
Total Bonds Payable	16,645,000	-	(1,340,000)	15,305,000	1,470,000
Plus deferred amount:					
Issuance premiums	-	-	-	-	-
<b>TOTAL</b>	<u>\$ 16,645,000</u>	<u>\$ -</u>	<u>\$ (1,340,000)</u>	<u>\$ 15,305,000</u>	<u>\$ 1,470,000</u>

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

**G. LONG-TERM DEBT**

Bonded Debt consists of Lakeway Municipal Utility District Water and Sewer Combination Revenue and Unlimited Tax Bonds: Series 2005, Series 2009, and Series 2013. Bond interest and principal is secured by and payable from the proceeds of an ad valorem tax levied without limitation as to rate or amount on all property within the District. Net revenues from the District's operations are not pledged for payment on the bonds, but may be used for such purpose.

Bonds payable at September 30, 2017 are comprised of the following individual issues:

Series 2005, due in annual principal installments ranging from \$470,000 to \$885,000 through September 1, 2022; interest rate is fixed at 3.57%.	\$ 3,695,000
Series 2009, due in annual principal installments ranging From \$270,000 to \$530,000 through September 1, 2029; Interest rate is variable from 4.375% to 4.50%.	4,757,000
Series 2013-2, due in annual principal installments ranging from \$290,000 to \$585,000 through September 1, 2033; interest rate is variable from 2% to 4.125%.	<u>6,865,000</u>
Total bonds payable at September 30, 2016	\$ <u>15,305,000</u>

Debt service requirements to maturity are as follows:

Due Fiscal Year Ended September 30	Principal	Interest	Accumulated Accretion	Total
2018	\$ 1,470,000	\$ 568,028	\$ -	\$ 2,038,028
2019	1,505,000	517,963	-	2,022,963
2020	1,445,000	466,912	-	1,911,912
2021	1,340,000	417,744	-	1,757,744
2022	1,185,000	371,937	-	1,556,937
2023-2027	4,175,000	1,367,876	-	5,542,876
2028-2032	3,600,000	511,755	-	4,111,755
2033	<u>585,000</u>	<u>24,129</u>	-	<u>609,129</u>
Totals	\$ <u>15,305,000</u>	\$ <u>4,246,344</u>	\$ -	\$ <u>19,551,344</u>

The provisions of the orders relating to debt service requirements for the upcoming fiscal year will be met with the cash allocated for these purposes and the proceeds of the ad valorem tax to be collected.

**Redemption of Bonds**

The provisions relating to the redemption, callability, and call price of outstanding bonds are as follows:

**Series 2005:**

Bonds maturing on and after September 1, 2009 are subject to redemption, in whole or in part, at any date, at the par value thereof plus accrued interest to the date of redemption.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

**Series 2009:**

Bonds maturing on and after September 1, 2019 are callable in whole or in part on any date beginning September 1, 2018 at par value plus accrued interest to the date of redemption.

**Series 2013:**

Bonds are callable in whole or in part on any date at par value plus accrued interest to the date of redemption.

**H. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; damage to, and theft or destruction of assets; errors and omissions; injuries to employees and natural disaster. During the year ended September 30, 2017, coverages provided are as follows:

Public Official and Employee Bond (Per occurrence)	\$	50,000
Auto Liability and Physical Damage	\$	1,000,000
General Liability	\$	1,000,000
Commercial Property – Real and Personal Property	\$	19,054,842
Tax Collector Bond	\$	50,000
Errors and Omissions Liability	\$	5,000,000

The District has had no significant reduction in insurance coverage from prior years. The District has had no settlements exceeding insurance coverage. Workers' compensation was maintained by paying premiums to the Texas Municipal League Intergovernmental Risk Pool and Texas Political Subdivisions Joint Self-Insurance Funds. The premium is calculated based upon accident history and administrative costs.

**I. OPERATING TRANSFERS**

During the year ended September 30, 2017, the General Fund transferred \$940,576 to the Debt Service Fund for the payment of bond interest and principal.

**J. INTEREST AND FISCAL CHARGES**

The Debt Service Fund incurred interest and fiscal charges broken down as follows:

		<b><u>Debt Service</u></b>
Interest	\$	614,731
Appraisal Services		7,711
Collection Expenses		4,784
Total	\$	<u>627,226</u>

## LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements

For the Year Ended September 30, 2017

### K. RELATIONSHIPS WITH OTHER DISTRICTS

The District has two interconnects, one with Hurst Creek Municipal Utility District and one with Travis County Water District No. 17 for use in emergency situations. The cost of the interconnects was shared equally with Hurst Creek Municipal Utility District, Lakeway MUD, and Travis County Water District No. 17.

The District has two wholesale contracts – water and wastewater with Travis County Municipal Utility No.11 (aka Rough Hollow) and wastewater with Travis County WCID No. 17. The District entered into a contract with Rough Hollow to expand their West Waste Water Plant to accommodate future growth.

In November of 1997, the District entered an exclusion and development agreement with Lakeway Partners, LLC (“LP”). The agreement was revised and restated in June of 1998. The agreement provides that LP shall pay the capital costs portion owed by the District for the proposed Lower Colorado River Authority (“LCRA”) barge, including the on-shore connection cost. LP has since been acquired by Rough Hollow. During 2012, the District entered into a Joint Ownership and Operating Agreement to purchase the barge and water intake, pumping and transportation facilities from LCRA. As such, the District has recorded intergovernmental revenue in the amount of capital cost spent by the District to acquire its portion of the barge and system, including the additional installation and connection costs, which totaled \$1,725,398. Rough Hollow paid the District \$169,208 during 2015. As of September 30, 2017, there is a receivable balance due from Rough Hollow of \$884,997. As such, the District has classified the total expected to be collected in 2018 as a current receivable of \$195,328, with the remaining balance of \$649,669 recorded as a long-term receivable included in nonspendable fund balance. Rough Hollow has a letter of credit with the Bank of New York Mellon for \$1,500,000 on file at Lakeway MUD.

### L. JOINT OWNERSHIP AND OPERATING AGREEMENT

During 2012, the District entered into a joint ownership and operating agreement (JOOA) for the Lakeway Regional Raw Water Transportation System. The agreement was entered into between the District (“LMUD”), Hurst Creek Municipal Utility District (“HCMUD”), Travis County Municipal Utility District No. 11 (“TCMUD11”), and Lakeway Rough Hollow South Community, Inc. (“Rough Hollow”). Each of the parties has a separate agreement with LCRA whereby LCRA provides the party with a raw water supply from Lake Travis. The parties agreed to their percentage ownership, and made initial capital outlay for their respective shares in the system, referred to as the “Barge Fund”. The percentage shares are as follows:

- LMUD 59%
- HCMUD 32%
- TCMUD11 2%
- Rough Hollow 7%

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

LMUD is currently the administrator of the Barge Fund. In accordance with the JOOA, the District maintains complete books and records showing all deposits into and expenditures of any nature from the Barge Fund, which are kept in accordance with generally accepted accounting principles as applied to special districts in Texas. The Administrator can be changed by the parties, if a majority of parties vote to change. All records are kept separate and outside the general ledger of the District and the District is invoiced for its share of any costs incurred by the Barge Fund. Separate financial statements for the Barge Fund are available upon request.

**M. EMPLOYEE RETIREMENT PLAN**

**Plan Description-** Lakeway Municipal Utility District provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system. TCDRS issues a publicly available annual financial report that includes financial statements and required supplementary information for the plan. The annual financial report is available upon written request from the Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or may be downloaded at <http://www.tcdrs.com>.

The Plan provisions are adopted by the governing body of the employer, within the options available in the Texas statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 8 years of service but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

**Benefited Amounts-**Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

**Employees covered by benefit terms-** At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	6
Inactive employees entitled to but not yet receiving benefits	8
Active employees	<u>21</u>
Total	<u>34</u>

**Contributions-**The contribution rates for employees in TCDRS are either 4%, 5%, 6%, or 7% of employee gross earnings. Under state law, employers participating in the system must pay 100% of their actuarially determined required contributions on an annual basis.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

Employees for the District were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the District were 11.90% in calendar year 2016. The District contributions to TCDRS for the year ended September 30, 2016, were \$140,943 and were equal to the required contributions.

**Net Pension Liability-**The District's Net Pension Liability (NPL) was measured as of December 31, 2016 and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

**Actuarial assumptions-** The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	3.0% per year
Real rate of return	5.0% per year
Investment Rate of Return	8.0%, net of pension plan investment expense, including inflation

The long-term investment return of 8% is net of investment expenses and is expected to enable the system to credit interest at the nominal annual rates shown below to the following major funds:

Subdivision Accumulation Fund:	9%
Employees Saving Fund:	7%
Current Service Annuity Reserve Fund:	7%

Assuming interest will be credited at these nominal annual rates to the various funds, we have then assumed the following:

- An annual rate of 9% for calculating the actuarial accrued liability and normal cost contributions rate for the retirement plan of each participating employer.
- An annual rate of 7% required under the TCDRS Act for: (1) accumulating current service credit and multiple matching credit after the valuation date; (2) accumulating prior service credit after the valuation date; (3) determining the amount of the monthly benefit at future dates of retirement or disability; and (4) calculating the actuarial accrued liability of the system-wide Current Service Annuity Reserve Fund.

The annual salary rate increase assumed for individual members vary by length of service and by entry-age group. The annual rates consist of a general wage inflation component of 3.5% (made up of 3.0% inflation and 0.5% productivity increase assumptions) and a merit, promotion and longevity component that on average approximates 1.4% per year for a career employee. Employer-specific economic assumptions:

Growth in membership:	0.0%
Payroll growth:	1.5%

The payroll growth assumption is for the aggregate covered payroll of an employer. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



## LAKEWAY MUNICIPAL UTILITY DISTRICT

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

**Long-Term Expected Rate of Return**-The long-term expected rate of return on TCDRS assets is determined by adding expected inflation to expected long-term real returns, and reflecting expected volatility and correlation. The capital market assumptions and information shown below are provided by TCDRS' investment consultant. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year horizon. The most recent analysis was performed in 2013. The numbers shown are based on January 2016 information for a 7-10 year time horizon.

Asset Class	Benchmark	Target Allocation	Geometric Real Rate of Return (Expectation-inflation)
US Equities	Dow Jones U.S Total Stock Market Index	13.50%	4.70%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index	16.00%	7.70%
Global Equities	MSCI World (net) Index	1.50%	5.00%
International Equities-Developed	50% MSCI World Ex USA (net) + 50% MSCI World ex USA 100% Hedged to USD (net) Index	10.00%	4.70%
International Equities-Emerging	50% MSCI EM Standard Ex USA (net) + 50% MSCI EM 100% Hedged to USD (net) Index	7.00%	5.70%
Investment- Grade Bonds	Barclays Capital Aggregate Bond Index	3.00%	0.60%
High-Yield Bonds	Citigroup High-Yield Cash-Pay Capped Index	3.00%	3.70%
Opportunistic Credit	Citigroup High-Yield Cash-Pay Capped Index	2.00%	3.83%
Direct Lending	Citigroup High-Yield Cash-Pay Capped Index	10.00%	8.15%
Distressed Debt	Citigroup High-Yield Cash-Pay Capped Index	3.00%	6.70%
REIT Equities	67% FTSE NAREIT Equity REITs Index + 33% FRSE EPRA/NAREIT Global Real Estate Index	2.00%	3.85%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.60%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index	6.00%	7.20%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	25.00%	3.85%

**Discount Rate**-The discount rate used to measure the total pension liability was 8.10% and the longer-term expected rate of return, net of investment expense was 8.10%. The rate reflects the long-term rate of return funding valuation assumption of 8.00% plus 0.10% adjustment to be gross of administrative expenses as required by GASB 68. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is the long-term expected rate of return, and the municipal bond rate does not apply.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

<u>Changes in Net Pension Liability/(Asset)</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balance at December 31, 2015	\$ 5,695,371	\$ 5,060,265	\$ 635,106
Changes for the year:			
Service cost	154,942	-	154,942
Interest on total pension liability	461,660	-	461,660
Effect of economic/demographic gains or losses	21,858	-	21,858
Effect of assumptions changes or inputs	-	-	-
Benefit payments	(146,497)	(146,497)	-
Administrative expense	-	(4,069)	4,069
Contributions - employer	-	140,943	(140,943)
Contributions - employee	-	82,977	(82,997)
Net investment income	-	374,606	(374,606)
Other changes	-	10,607	10,607
Balance at December 31, 2016	<u>\$ 6,187,334</u>	<u>\$ 5,518,832</u>	<u>\$ 668,502</u>

**Sensitivity Analysis-**The District calculated using the discount rate of 8.1%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.1%) or 1-percentage-point higher (9.1%) than the current rate:

	<u>1% Decrease in Discount Rate (7.1%)</u>	<u>Discount Rate (8.1%)</u>	<u>1% Increase in Discount Rate (9.1%)</u>
Total pension liability	\$ 7,056,203	\$ 6,187,334	\$ 5,024,813
Fiduciary net position	5,518,832	5,518,832	5,518,832
Net pension liability/ (asset)	<u>\$ 1,537,371</u>	<u>\$ 668,502</u>	<u>\$ (53,709)</u>

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions-** For the year ended December 31, 2016, the District recognized pension expense of \$111,405.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements  
For the Year Ended September 30, 2017  
(Continued)

**Pension Expense / (Income)**

Service Cost	\$	151,958
Interest on total pension liability		430,979
Effect of plan changes		(42,600)
Administrative expense		3,623
Member contribution		(80,613)
Expected investment return net of investment expenses		(412,536)
Recognition of deferred inflow/outflows of resources		
Recognition of economic / demographic gains or losses		(5,204)
Recognition of assumption changes or inputs		(4,927)
Recognition of investment gains or losses		100,838
Other		(6,219)
<b>Total pension expense/ (income)</b>	<b>\$</b>	<b><u>145,152</u></b>

At December 31, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		<b><u>Deferred Inflows of Resources</u></b>		<b><u>Deferred Outflows of Resources</u></b>
Differences between expected and actual economic experience	\$	47,132	\$	15,907
Changes in actuarial assumptions		-		29,561
Net difference between projected and actual economic experience		-		390,242
Total	\$	<u>47,132</u>	\$	<u>435,710</u>

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows for the year ended December 31:

2016		\$ 100,560
2017		100,560
2018		100,560
2019		87,451
2020		(277)
2021 and thereafter		(277)
Total		<u>\$ 388,577</u>

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

**N. LITIGATION**

The District has no pending litigation that would materially affect these financial statements.

**O. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS BALANCE SHEET AND THE STATEMENT OF NET POSITION**

Explanation	Amount of Adjustment
Total Fund Balances as of September 30, 2017	\$ 17,013,934
<p>Capital assets are not reported as assets in the governmental funds but are reported as expenditures when acquired. However, in the statement of net position, these assets are capitalized and reported at cost net of depreciation:</p>	
Land and construction in progress	6,421,291
Other capital assets	18,548,353
<p>Long-term liabilities and other payables applicable to the District's governmental activities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities, both current and long-term, are reported in the statement of net position:</p>	
Pension liabilities	(187,819)
Interest payable	(46,715)
Compensated absences	(187,819)
Bonds payable	(15,305,000)
Deferred tax revenues as reported in the funds included as deferred revenue are not available to pay current period expenditures and therefore are deferred in the funds but are reported as property tax revenue in the statement of activities and therefore no tax revenue deferral amount is reported in the statement of net position.	80,190
Total net position as of September 30, 2017	\$ 26,331,367

**LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to the Financial Statements

For the Year Ended September 30, 2017

(Continued)

**O. EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE STATEMENT OF ACTIVITIES**

Explanation	Amount of Adjustment
Excess of revenues, transfers and other sources of income over expenditures and transfers for the year ended September 30, 2017	\$ 538,872
Salaries/benefits payable (compensated absences and pension liabilities) are currently reported as an expense in the statement of activities and since this expense does not require the use of current financial resources, it is not reported as an expenditure in the governmental funds.	25,919
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Current year capital assets purchased or constructed	1,306,108
Depreciation expense	(1,080,956)
Incremental deferred tax revenues as reported in the funds included as deferred revenue are not available to pay current period expenditures and therefore are deferred in the funds but are reported as property tax revenue in the statement of activities.	7,533
Other and accrued interest	3,684
Repayment of bond principal is an expenditure in the governmental funds, and a reduction in long-term liabilities in the statement of net position and does not result in an expense in the statement of activities.	1,340,000
Change in net position for the year ended September 30, 2017	\$ <u>2,141,160</u>

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
**Required Supplementary Information - Pension Plan**  
**For the Year Ended September 30, 2017**

**Schedule of Changes in Net Pension Assets and Related Ratios**

	<u>2017</u>	<u>2016</u>
Total pension liability		
Service cost	\$ 154,942	\$ 151,958
Interest on total pension liability	461,660	430,979
Effect on plan changes	-	(42,600)
Effect on assumption changes or inputs	-	34,487
Effect of economic/demographic (gains) losses	21,858	(54,987)
Benefit payments/refunds of contributions	(146,497)	(146,497)
Net change in total pension liability	491,963	373,340
Total pension liability at beginning of year	5,695,371	5,322,031
Total pension liability at end of year (a)	<u>6,187,334</u>	<u>5,695,371</u>
Fiduciary net position:		
Employer contributions	140,943	137,964
Member contributions	82,977	80,613
Investment income net of investment expense	374,606	(26,107)
Benefit payments/refunds of contributions	(146,497)	(146,497)
Administrative expenses	(4,069)	(3,623)
Other	10,607	6,219
Net change in fiduciary net position	458,567	48,569
Fiduciary net position at beginning of year	5,060,265	5,011,696
Fiduciary net position at end of year (b)	<u>5,518,832</u>	<u>5,060,265</u>
Net pension liability/(asset) (a)-(b)	\$ 668,502	\$ 635,106
Fiduciary net position as a percentage of total pension liability	89.20%	88.85%
Pensionable covered payroll	1,185,392	1,151,618
Net pension liability (asset) as a percentage of covered payroll	56.39%	55.15%

Note: The Schedule of Changes in Net Pension Assets and related ratio disclosure is required for 10 years. The schedule noted above is only for the years in which the new GASB Statements have been implemented.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
 Required Supplementary Information-Pension Plan  
 For the Year Ended September 30, 2017

**Schedule of Employer Contributions**

<b>Year Ending December 31</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Employer Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Pension Covered Payroll</b>	<b>Actual Contributions as a % of Covered Payroll</b>
2007	\$ 95,249	\$ 95,249	\$ -	\$ 979,926	9.7%
2008	95,633	100,710	(5,077)	1,036,108	9.7%
2009	105,869	109,143	(3,274)	1,091,433	10.0%
2010	127,196	131,748	(4,552)	1,197,706	11.0%
2011	119,221	125,495	(6,274)	1,140,866	11.0%
2012	116,449	117,733	(1,284)	1,070,304	11.0%
2013	131,812	131,812	-	1,113,276	11.8%
2014	148,842	148,842	-	1,142,301	13.0%
2015	137,964	137,964	-	1,151,618	12.0%
2016	140,943	140,943	-	1,185,392	11.9%

Note: TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the District should report on a fiscal year basis. Payroll is calculated based on contributions as reported to TCDRS.

## Notes to Schedule of Employer Contributions and Net Pension Liability

Valuation Date: Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	13.5 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Schedule*	No changes in plan provisions are reflected in the Schedule of Employer Contributions for the years ended September 31, 2016 or 2015.

\* Note: Only changes effective 2015 and later are shown in the Notes to the Schedule.



**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
 Required Supplementary Information - Pension Plan  
 For the Year Ended September 30, 2017

**Schedule of Annual Rates of Service Retirement\***

Age	Male	Female	Age	Male	Female
40-44	4.5%	4.5%	62	25.0%	25.0%
45-49	9.0	9.0	63	16.0	16.0
50	10.0	10.0	64	16.0	16.0
51	10.0	10.0	65	30.0	30.0
52	10.5	10.5	66	25.0	25.0
53	10.5	10.5	67	24.0	24.0
54	10.5	10.5	68	22.0	22.0
55	11.0	11.0	69	22.0	22.0
56	11.0	11.0	70	22.0	22.0
57	11.0	11.0	71	22.0	22.0
58	12.0	12.0	72	22.0	22.0
59	12.0	12.0	73	22.0	22.0
60	14.0	14.0	74**	22.0	22.0
61	12.0	12.0			

\* Deferred members are assumed to retire (100% probability) at the later of:

- a) age 60
- b) earliest retirement eligibility.

\*\* For all eligible members ages 75 and later, retirement is assumed to occur immediately.

**Employer-specific demographic assumptions:**

Other terminations of employment — The rate of assumed future termination from active participation in the plan for reasons other than death, disability or retirement are all set at 0% and the rates do not vary by length of service, entry-age group (age at hire) and gender. No termination after eligibility for retirement is assumed.

**LAKEWAY MUNICIPAL UTILITY DISTRICT**  
**Required Supplementary Information - Pension Plan**  
**For the Year Ended September 30, 2017**

**Schedule of Probability of Withdrawal**

**Withdrawals** — Members who terminate may either elect to leave their account with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting schedule. Rates applied to your plan are shown in Table 5. For non-depositing members who are not vested, 100% are assumed to elect a withdrawal.

Years of Service	Probability	Years of Service	Probability
0	100%	15	40%
1	100	16	38
2	100	17	36
3	100	18	34
4	100	19	32
5	100	20	30
6	100	21	28
7	100	22	26
8	50	23	24
9	49	24	22
10	48	25	20
11	47	26	15
12	46	27	10
13	44	28*	5
14	42		

\* Members with more than 28 years of service are not assumed to withdraw.

LAKEWAY MUNICIPAL UTILITY DISTRICT  
 Budgetary Comparison Schedule - Required Supplemental Information  
 General Fund  
 For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>			<b>Variance With Final Budget Positive (Negative)</b>
	<b>Original (unaudited)</b>	<b>Final (unaudited)</b>	<b>Actual Amounts</b>	
<b>Revenues:</b>				
Charges for water services	\$ 3,011,226	\$ 3,011,226	\$ 3,207,235	\$ 196,009
Charges for wastewater service	1,536,554	1,536,554	1,685,095	148,541
Property taxes	220,000	220,000	219,944	(56)
Tap connection and inspection fees	49,000	49,000	75,476	26,476
Investment earnings	1,500	1,500	31,213	29,713
Penalties and interest	35,000	35,000	37,286	2,286
Other	5,000	5,000	119,306	114,306
Total revenues	<u>4,858,280</u>	<u>4,858,280</u>	<u>5,375,555</u>	<u>517,275</u>
<b>Expenditures/expenses:</b>				
<b>Service operations:</b>				
Water service	928,000	928,000	769,041	158,959
Wastewater service	302,000	302,000	536,838	(234,838)
Salaries, benefits, and payroll taxes	1,721,702	1,721,702	1,690,072	31,630
Contracted services	285,900	285,900	328,852	(42,952)
Professional fees	157,000	157,000	232,827	(75,827)
Administrative Supplies and Maintenance-	492,100	492,100	32,845	459,255
<b>Capital outlay</b>	<u>39,600</u>	<u>39,600</u>	<u>277,742</u>	<u>(238,142)</u>
Total expenditures/expenses	<u>3,926,302</u>	<u>3,926,302</u>	<u>3,868,217</u>	<u>58,085</u>
Excess (deficiency) of revenues over expenditures	931,978	931,978	1,474,493	542,515
Other financing sources (uses):				
Transfers-internal activities	<u>(940,576)</u>	<u>(940,576)</u>	<u>(940,576)</u>	<u>-</u>
Total other sources (uses)	<u>(940,576)</u>	<u>(940,576)</u>	<u>(940,576)</u>	<u>-</u>
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(8,598)	(8,598)	533,917	542,515
<b>Fund balance:</b>				
Beginning of the year	5,946,684	5,946,684	5,946,684	-
End of the year	<u>\$ 5,938,086</u>	<u>\$ 5,938,086</u>	<u>\$ 6,480,601</u>	<u>\$ 542,515</u>

See Accompanying Note to Financial Statements

## **LAKEWAY MUNICIPAL UTILITY DISTRICT**

Notes to Required Supplementary Information

For the Year Ended September 30, 2017

### **Budgetary Information**

The General Manager submits an annual budget to the Finance Committee, which in turn presents it to the Board of Directors. In August, the Board adopts the annual fiscal year budget for the District for the general fund prepared in accordance with generally accepted accounting principles. Once approved, the Board may amend the adopted budget when unexpected modifications are required in estimated revenues and appropriations.

The budget is prepared in a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: salaries and benefits, supplies, maintenance, purchased and contracted services, and capital expenditures. Budget approvals for capital expenditures are subject to final review by the Board. The level of control is by department, which has been established by an Authority Matrix. Expenditures may not exceed appropriations.

The budget is prepared on a cash and expenditures basis. Revenues are budgeted in the year receipt is expected and expenditures are budgeted in the year that the applicable expenditure is expected to be made. The budget amounts presented in the budgetary comparison schedule represent the original and final amended budget as adopted during the year. The District does not appropriate current funds for estimates of expenditures for construction projects in the general fund. Instead, the District budgets for construction project expenditures on a project basis and not on an annual basis. All budget appropriations lapse at fiscal year end. The District's budget is used for management control and rate setting purposes.

**APPENDIX B**

**Form of Bond Counsel's Opinion**

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*[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.]*

**LAKEWAY MUNICIPAL UTILITY DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2018  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,400,000**

**AS BOND COUNSEL FOR THE LAKEWAY MUNICIPAL UTILITY DISTRICT** (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 August 13, 2018, authorizing the issuance of the Bonds and the pricing certificate of the pricing officer (collectively, 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 bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

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

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on



the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance by the District with certain covenants, regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. In expressing the aforementioned opinions, we have relied on the Sufficiency Certificate executed by the District's Financial Advisor, and assume compliance by the District with certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the District to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

**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, including the amount, accrual or receipt of interest on, 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. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning 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.

**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,

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**SPECIALIZED PUBLIC FINANCE INC.**  
FINANCIAL ADVISORY SERVICES