



THE DEVELOPER

Role of the Developer

In general, the activities of a developer within a municipal utility district, such as the District, include purchasing land within the district, designing the subdivision, designing utilities and streets to be placed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases water, sewer, and drainage facilities pursuant to the rules of the Commission, as well as gas, telephone, and electric service). In most instances, the developer is required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in the utility district pursuant to the rules of the Commission. The relative success or failure of the developer to perform such activities in development of the property within a municipal utility district may have a profound effect on the security for the bonds issued by a district.

Description of the Developer

The Developer within the District is Milwood Joint Venture II ("Milwood JV" or "Developer"), a joint venture between Milburn Investments, Inc. ("Milburn") and Palmar Associates, Ltd. ("Palmar"). Milburn is a Texas corporation which, until July 30, 1993, was wholly owned by Mr. William Milburn. Milburn is the managing venture partner, however, certain decisions, such as financing and land planning, require approval of both venture partners. Palmar is a Texas limited partnership whose general partners are A. H. Robinson, III and J. O. Robinson, and whose limited partners are other members of the Robinson family.

Pursuant to an agreement reached with Milwood JV, Milburn is developing Milwood Sections 38A, 38B, 34, 35, 36 and 37. It is uncertain at this time as to whether Milburn will request and whether Milwood JV will grant Milburn the right to develop additional property in the District. See "Option Contracts" below.

Milburn and related joint ventures are developing land and building homes within and nearby the Central Texas cities of Austin, Cedar Park, Killeen, and Round Rock. Current subdivision activities include the following development projects: Milwood, Anderson Mill West, Texas Oaks, the Settlement, Windmill Run, Cherry Creek, Willow Run, Bratton Park, Brushy Creek, Green Slopes, Morning Glen, Heather Glen, Bellaire Heights, South Brook, Turtle Bend and Buttercup Creek. Companies owned by Mr. Milburn have developed more than 4,000 acres and sold over 22,000 homes in the past 30 years.

On July 30, 1993, Mr. William O. Milburn sold to Continental Homes Holding Corp. ("Continental") all of the issued and outstanding common stock of Milburn and certain other companies owned by Mr. Milburn. According to Mr. Milburn and Continental, the sale of the stock should not interfere with the development activities of Milwood JV or Milburn. Milwood JV has consented to the sale of the stock. The District has no understanding regarding whether the sale of the stock will have any impact on the development activities of Milwood JV or Milburn.

Continental is a Delaware corporation whose stock is traded on the American Stock Exchange. Continental builds homes in Phoenix, Arizona, Denver, Colorado and Southern California. For the fiscal year ended May 31, 1993, Continental had gross revenues of approximately \$207,033,000 of which approximately 97% came from its homebuilding activities; approximately \$187,525,000 in total assets; and approximately \$51,550,000 of shareholder equity. Continental is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("Commission"). Copies of such material can be obtained by mail from public reference section of the Commission, 450 Fifth Street, Washington, D.C. 20549 at prescribed rates. In addition, such reports and other information may be obtained from the American Stock Exchange.

Development Financing

Originally the existing residential and multi-family development within the District was funded by a series of development loans to Milwood JV by Texas Commerce Bank, National Association, Austin, Texas ("TCB"). Subsequent to the Continental closing, the only remaining TCB loan is \$803,464.00 for the raw land purchase of the multi-family tract known as Milwood Section 25. This is also the only remaining debt of Milwood JV. All future financing of development by Milburn will be carried through a \$25,000,000 revolving line of credit with Banc One, Phoenix, Arizona whose funding levels are based upon and subject to available collateral. As of August 1, 1993, \$13,416,487 of the revolving line of credit had been funded leaving available credit of approximately \$11,583,513 available for financing projects of Continental in the Arizona and Texas regions including Milburn projects within the District. The terms of this revolving line of credit include interest payable monthly with all principal maturing July 28, 1995. Future development within the District undertaken by Milburn will be funded either by this line of revolving credit or corporate cash.

Option Contracts

On September 15, 1982, Milwood JV entered into separate option agreements with the Robinson Ranch and Austin White Lime Company for the purchase of approximately 1,251 acres. Approximately 821 of such acres lie within the boundaries of the District. Pursuant to each option contract, Milwood JV is required to purchase varying amounts of property within specific option periods until all of the property has been purchased. In consideration for the option, Milwood JV has deposited earnest money with the seller and makes quarterly option payments. In the event Milwood JV defaults on its obligations, the seller's sole remedy is retention of the earnest money and termination of the option contract. Milwood JV currently is in compliance with all material terms of the option contracts.

Pursuant to an agreement reached between the Milwood JV partners, Milwood JV has assigned to Milburn its rights to purchase the property being developed as Milwood, Section 38A and its rights to purchase the property that has been platted as Milwood, Sections 38B and 34. Similar agreements also have been executed for the development of Milwood, Sections 35, 36, and 37.

Lot Sales Contract

All of the homes within the District have been constructed by Milburn. All of the remaining lots currently located within the District owned by Milwood JV are subject to a lot purchase agreement giving Milburn the right to purchase such lots. The agreement calls for Milburn to have purchased such lots before a certain date. In the event Milburn fails to close on the purchase of the applicable lots within the applicable time period, Milwood JV's sole remedy is to terminate the lot purchase agreement. There are currently approximately 28 lots owned by Milwood JV and subject to the lot purchase agreement. The other unimproved lots in the District are owned by Milburn.

As discussed above under "Description of Developer", Mr. William O. Milburn recently sold all of his stock in Milburn. According to representatives of Milburn, the sale of such stock will not have an impact on the right of Milburn to continue to purchase lots from Milwood JV. The District, however, cannot make any evaluation as to what, if any, impact such transaction may have on future sale of lots or construction of homes in the District.

THE SYSTEM

Regulation

According to the Engineer, the water, sewer and drainage facilities acquired or constructed by the District (the "System") have been designed in accordance with accepted engineering practices and the regulations of the Texas Department of Health, Travis County, Williamson County, the City of Austin and the Commission. Construction and operation of the facilities are subject to the inspection of the Commission, for determining compliance with approved construction plans, and by the Commission, the United States Environmental Protection Agency and various local agencies for compliance with environmental requirements.

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

Wastewater Treatment: Permanent wastewater treatment service for the District is provided by the City of Austin's Walnut Creek Wastewater Treatment Plant, which has a capacity of 60 million gallons per day average flow. The average daily capacity in 1993 at this facility has been 32 million gallons per day. The City has agreed to provide wastewater treatment service at the Walnut Creek Wastewater Treatment Plant for the ultimate development in the District.

100-Year Floodplain

Portions of the District primarily along Rattan Creek and Lake Creek are within the projected 100-year floodplain. No future development is proposed in these areas.

Recently, the Board of Directors of the District authorized the District's Engineer to review the location of the 100-year floodplain in relation to the existing development within the District. Based on the results of this study, as many as 30 lots which contain homes within Milwood Sections 32, 34 (under construction), 28, 29, 27A, 27B, and 26A may lie within the 100-year floodplain. Future development along the floodplain may have to be slightly altered to avoid encroachment by the 100-year floodplain.

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Water and Wastewater Rate Fee Schedule

The Board establishes rates and fees for water and wastewater service, subject to change from time to time. The following rates became effective April 1, 1993.

Water Service

Charge Per LUE Per Month

| | |
|---|--------|
| Minimum monthly charge up to 1,000 gallons of water | \$6.00 |
| Per 1,000 gallons of water over 1,000 | \$1.78 |

Sewer Service

| | |
|---|--------|
| Minimum monthly charge up to 1,000 gallons of water | \$5.00 |
| Per 1,000 gallons of water over 1,000 gallons | \$2.42 |

All Services Required

Except as otherwise expressly authorized by the District, no service shall be provided by and through the District's System unless the applicant agrees to take both water and wastewater service.

All Services Charged

At no time shall the District render water and/or sewer services without charge to any person, firm, corporation, organization or entity.

Tap Fees

The District's water tap fees shall be as follows:

| <u>Meter Size</u> | <u>Tap Fee</u> |
|---------------------------|--|
| 5/8" | \$400.00 |
| 3/4" | \$425.00 |
| 1-1/2" and over 1-1/2" | To be installed by the District at cost times 3 |

The District's sanitary sewer tap fees shall be as follows:

| | |
|-------------|------------|
| Residential | \$ 400.00 |
| Commercial | \$1,000.00 |

Sewer tap installation involving excavation of the sewer main shall be performed by the District at cost plus 25% in addition to the above sewer tap fee.

Operating Statement of the System

General Fund: The Outstanding District Bonds and the Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The District's share of the debt service on the Outstanding Contract Bonds is payable from a limited ad valorem tax on an taxable property in the District. In addition, Net Revenues from operations of the District's System, if any, are pledged to the payment of debt service on all of the Outstanding Obligations and the Bonds. However, it is not anticipated that any Net Revenues will be sufficient to pay debt service on the Bonds or the Outstanding Obligations. See "THE BONDS--Sources of Payment."

The following statement sets forth the General Fund as derived from the District's audited financial statements for fiscal year ending September 30, 1992. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

General Fund

| | <u>Fiscal Year Ended September 30</u> | | | | |
|---|---------------------------------------|--------------------|--------------------|--------------------|-------------------|
| | <u>1992</u> | <u>1991</u> | <u>1990</u> | <u>1989</u> | <u>1988</u> |
| Revenues: | | | | | |
| Utilities: | | | | | |
| Water and sewer service | \$ 761,142 | \$ 702,625 | \$ 648,196 | \$ 581,674 | \$ 529,372 |
| Water and sewer tax connection fees | 104,950 | 103,600 | 98,800 | 114,080 | 77,600 |
| Penalties and interest | 15,374 | 13,829 | 17,845 | 22,018 | 20,085 |
| Application fees | 12,840 | 10,725 | 2,137 | 1,925 | 1,770 |
| Property taxes | 188,200 | 253,602 | 232,305 | 267,558 | 267,526 |
| Pool and park fees | 49,474 | 41,523 | 40,523 | 33,693 | 27,365 |
| Interest and other | 29,205 | 36,753 | 35,939 | 30,968 | 12,331 |
| Lawsuit settlement | <u>33,334</u> | | | | |
| Total revenues | <u>\$1,194,519</u> | <u>\$1,162,425</u> | <u>\$1,075,745</u> | <u>\$1,051,916</u> | <u>\$ 936,049</u> |
| Expenditures: | | | | | |
| Utilities: | | | | | |
| Purchased water and sewer service | \$ 676,694 | \$ 603,291 | \$ 597,324 | \$ 577,027 | \$ 533,542 |
| Repairs and maintenance | 36,986 | 25,038 | 75,341 | 68,795 | 82,087 |
| Electric utilities | 39,242 | 35,701 | 33,545 | 41,334 | 41,460 |
| Water and sewer tap connection charges | 11,848 | 10,849 | 13,397 | 12,886 | 10,665 |
| Other | 3,072 | 2,333 | 1,739 | 2,884 | 2,687 |
| Professional services | 128,658 | 97,319 | 80,755 | 76,176 | 65,580 |
| Service account collection | 89,219 | 81,886 | 75,523 | 49,506 | 42,882 |
| Pool management fee and other pool and park costs | 95,065 | 105,099 | 67,761 | 54,711 | 36,754 |
| Tax assessment and collection | 24,730 | 18,852 | 16,196 | 11,957 | 13,419 |
| Insurance | 11,145 | 11,376 | 11,559 | 10,407 | 7,840 |
| Office | 6,142 | 6,111 | 7,055 | 12,801 | 10,066 |
| Bad debts | 982 | 6,062 | 6,915 | 15,075 | 13,800 |
| Other | 700 | 3,384 | 1,893 | 11,729 | 1,640 |
| Capital outlay | <u>3,308</u> | <u>30,930</u> | <u>4,670</u> | | |
| Total expenditures | <u>\$1,128,158</u> | <u>\$1,038,231</u> | <u>\$ 993,673</u> | <u>\$ 945,288</u> | <u>\$ 862,422</u> |
| Excess (deficit) of revenues over expenditures | <u>\$ 66,361</u> | <u>\$ 124,194</u> | <u>\$ 82,072</u> | <u>\$ 106,628</u> | <u>\$ 73,627</u> |

DISTRICT VALUATION AND DEBT INFORMATION
(Unaudited as of October 1, 1993)

| | | |
|---|--------------------|------------------|
| 1993 Certified Taxable Assessed Valuation (100% of Market Value as of January 1, 1993) | | \$162,098,742(a) |
| Direct Debt: | Par Amount | District Share |
| Outstanding District Bonds (as of October 1, 1993) | \$ 9,650,000 | \$ 9,650,000 |
| Outstanding Contract Bonds (as of October 1, 1993) | 17,870,000 | 6,220,547(b) |
| Less Refunded Bonds | | 5,625,000 |
| The Bonds | | <u>5,625,000</u> |
| Total | | \$ 15,870,547 |
| Estimated Overlapping Debt | | \$ 4,202,558(c) |
| Direct and Estimated Overlapping Debt | | \$ 20,073,105 |
| Ratio of Direct Debt to: | | |
| 1993 Certified Taxable Assessed Valuation | | 9.79% |
| Ratio of Direct and Estimated Overlapping Debt to: | | |
| 1993 Certified Taxable Assessed Valuation | | 12.39% |
| Debt Service Fund Balance as of September 1, 1993 | | \$ 1,035,670(d) |
| Average Annual Debt Service Requirement (1994-2012) | | \$ 1,397,306(e) |
| Maximum Annual Debt Service Requirement (2005) | | \$ 1,840,557(e) |
| 1992 Tax Rate (per \$100 of assessed valuation) | | |
| Outstanding District Bonds Debt Service | \$ | 0.51 |
| Outstanding Contract Bonds Debt Service | \$ | 0.49 |
| Maintenance | \$ | <u>0.15</u> |
| Total | \$ | 1.15 |
| Tax Rate Required to Pay Average Annual Debt Service (1994-2012) at a 95% Collection Rate: | | |
| Based upon 1993 Certified Taxable Assessed Valuation | \$ | 0.91 |
| Tax Rate Required to Pay Maximum Annual Debt Service (2005) at a 95% Collection Rate: | | |
| Based upon 1993 Certified Taxable Assessed Valuation | \$ | 1.20 |
| Average Current Collection Percentage (1987-1991) | | 98.95% |
| 1993 District Population Estimate: 5778 | | |
| Per Capita Debt: \$2,746 | | |

- (a) As certified by the Williamson County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
 (b) The District has agreed to reimburse the City of Austin for the District's pro rata share of construction costs funded by the Outstanding Contract Bonds - approximately 34.81%. See "THE BONDS--Outstanding Obligations."
 (c) See "DEBT SERVICE REQUIREMENTS--Estimated Overlapping Debt."
 (d) Includes \$398,686 in Contract Bond debt service payments to be made on November 15, 1993.
 (e) After the issuance of the Bonds.

DEBT SERVICE REQUIREMENTS

The following sets forth the actual debt service requirements for the District's portion of the Outstanding Contract Bonds, the Outstanding District Bonds, the Refunded Bonds, and the Bonds.

| Fiscal Year | District Share of Outstanding Contract Bonds | Outstanding District Bonds | Less: Refunded Bonds | The Bonds | | | Grand Total Debt Service |
|----------------|--|----------------------------------|----------------------------|---------------------|---------------------|---------------------|-----------------------------|
| | | | | Principal | Interest | Total | |
| 1994 | 618,041.91 | 1,124,331.56 | 485,637.50 | 265,000.00 | 165,270.00 | 430,270.00 | 1,687,005.97 |
| 1995 | 624,196.73 | 1,123,463.75 | 485,637.50 | 220,000.00 | 213,205.00 | 433,205.00 | 1,695,227.98 |
| 1996 | 628,208.30 | 1,145,113.75 | 485,637.50 | 225,000.00 | 205,945.00 | 430,945.00 | 1,718,629.55 |
| 1997 | 630,028.77 | 1,141,593.75 | 860,637.50 | 610,000.00 | 197,620.00 | 807,620.00 | 1,718,605.02 |
| 1998 | 632,603.10 | 1,155,483.75 | 878,037.50 | 650,000.00 | 173,220.00 | 823,220.00 | 1,733,269.35 |
| 1999 | 632,227.26 | 1,170,728.75 | 892,162.50 | 695,000.00 | 146,570.00 | 841,570.00 | 1,752,363.51 |
| 2000 | 629,863.91 | 1,175,508.75 | 901,562.50 | 730,000.00 | 117,380.00 | 847,380.00 | 1,751,190.16 |
| 2001 | 634,539.72 | 1,180,143.75 | 906,187.50 | 765,000.00 | 85,990.00 | 850,990.00 | 1,759,485.97 |
| 2002 | 635,549.79 | 1,207,951.25 | 931,100.00 | 140,000.00 | 736,565.00 | 876,565.00 | 1,788,966.04 |
| 2003 | 641,477.10 | 1,203,413.75 | 924,312.50 | 130,000.00 | 741,565.00 | 871,565.00 | 1,792,143.35 |
| 2004 | 635,025.18 | 1,218,257.50 | 937,406.25 | 125,000.00 | 761,565.00 | 886,565.00 | 1,802,441.43 |
| 2005 | 637,066.20 | 1,255,801.25 | 968,875.00 | 865,000.00 | 51,565.00 | 916,565.00 | 1,840,557.45 |
| 2006 | 641,802.05 | 555,606.25 | 268,750.00 | 205,000.00 | 10,045.00 | 215,045.00 | 1,143,703.30 |
| 2007 | 642,140.48 | 291,056.25 | | | | | 933,196.73 |
| 2008 | 646,701.89 | 289,500.00 | | | | | 936,201.89 |
| 2009 | 646,599.66 | 293,250.00 | | | | | 939,849.66 |
| 2010 | 646,991.60 | 301,250.00 | | | | | 948,241.60 |
| 2011 | | 303,250.00 | | | | | 303,250.00 |
| 2012 | | 304,500.00 | | | | | 304,500.00 |
| <hr/> | | | | | | | |
| | <u>10,803,063.62</u> | <u>16,440,204.06</u> | <u>9,925,943.75</u> | <u>5,625,000.00</u> | <u>3,606,505.00</u> | <u>9,231,505.00</u> | <u>26,548,828.93</u> |

Average Annual Debt Service Requirement (1994-2012) \$1,397,306
Maximum Annual Debt Service Requirement (2005) \$1,840,557

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Estimated Overlapping Debt

The following table indicates the general obligation indebtedness, defined as outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding bonds payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional bonds since the date listed. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures.

| Taxing Jurisdiction | Outstanding Debt as of 10/1/93 | Overlapping Percentage | Overlapping Debt |
|---|--------------------------------|------------------------|-------------------|
| Round Rock ISD | \$137,749,084 | 2.87% | \$ 3,953,399 |
| Williamson County | 12,325,000 | 1.83% | 225,547 |
| Travis County | 236,129,011 | 0.01% | 23,612 |
| City of Austin(a) | NA | less than 0.01% | <u>NA</u> |
| Total Overlapping Debt | | | \$ 4,202,558 |
| Total Direct Debt (including the Bonds) | | | <u>15,870,547</u> |
| Total District and Overlapping Debt | | | \$20,073,105 |
| Direct & Overlapping Debt to 1/1/93 Certified Valuation of \$162,098,742 | | | 12.38% |

(a) The 11.61 acres which lie within the City of Austin comprise public right-of-way.

Overlapping Tax Rates

| Overlapping Entity | 1993 Tax Rate per \$100 Assessed Valuation | Average Tax Bill(b) |
|----------------------|--|---------------------|
| Williamson County(a) | \$0.3656 | \$ 384 |
| Round Rock ISD | 1.5738 | 1,652 |
| The District | <u>1.0100</u> | <u>1,060</u> |
| Total | \$2.9494 | \$3,096 |

(a) A portion of the District lies within Travis County whose 1992 tax rate is \$0.5762 per \$100 assessed valuation.

(b) Based upon a single family home with an average assessed value of \$105,000 on 1/1/93.

TAX DATA

District Bond Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds.

Contract Bond Tax

The Board has the statutory authority to enter into agreements with other political subdivisions and to secure its obligations thereunder with a special ad valorem tax. On April 7, 1984, voters within the District authorized the Board to enter into certain agreements with the City of Austin which resulted in the issuance of the Outstanding Contract Bonds. The District's portion of the Outstanding Contract Bonds is secured by the levy of a limited ad valorem tax in an amount not exceeding \$1.10 per \$100 valuation and levied on a parity with the taxes levied to pay the Bonds. See "Historical Tax Rate Distribution" below.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted April 7, 1984, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and the Outstanding Contract Bonds. See "District Bond Tax" above. The District has levied a maintenance tax every year since 1985.

Historical Tax Rate Distribution

| | <u>1993</u> | <u>1992</u> | <u>1991</u> | <u>1990</u> | <u>1989</u> |
|--------------------|--------------|--------------|--------------|--------------|--------------|
| District Bond Tax | \$0.571 | \$0.514 | \$0.454 | \$0.426 | \$0.365 |
| Contract Bonds Tax | 0.329 | 0.486 | 0.546 | 0.540 | 0.385 |
| Maintenance Tax | <u>0.110</u> | <u>0.150</u> | <u>0.166</u> | <u>0.200</u> | <u>0.200</u> |
| Total | \$1.010 | \$1.150 | \$1.166 | \$1.166 | \$0.950 |

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax collection experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector and the Williamson County Appraisal District. Reference is made to such statements and records for further and more complete information.

| <u>Tax Year</u> | <u>Net Taxable Assessed Valuation</u> | <u>Tax Rate</u> | <u>% Collections</u> | | <u>Year Ended</u> |
|---------------------|---|---------------------|----------------------|--------------|-----------------------|
| | | | <u>Current</u> | <u>Total</u> | |
| 1985 | \$ 43,303,415 | \$0.40 | 98.56 | 103.25 | 9/30/86 |
| 1986 | 78,677,059 | 0.85 | 99.43 | 99.58 | 9/30/87 |
| 1987 | 106,876,941 | 0.85 | 99.36 | 99.36 | 9/30/88 |
| 1988 | 107,674,588 | 0.85 | 96.54 | 97.39 | 9/30/89 |
| 1989 | 112,846,159 | 0.95 | 99.89 | 99.91 | 9/30/90 |
| 1990 | 114,551,365 | 1.166(a) | 99.99 | 99.99 | 9/30/91 |
| 1991 | 113,163,735 | 1.166 | 99.01 | 99.01 | 9/30/92 |
| 1992 | 127,254,865 | 1.150 | 99.03(b) | | |

(a) Reflects conversion of the monthly surcharge to a tax.

(b) As of September 30, 1993.

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such taxpayers' property, and such property's assessed value as a percentage of the District's 1993 Certified Taxable Assessed Valuation of \$162,098,742.

| <u>Taxpayer</u> | <u>1993 Certified Taxable Assessed Valuation</u> | <u>% of 1993 Certified Taxable Assessed Valuation</u> |
|-------------------------------------|--|---|
| State Farm Insurance Company | \$ 6,597,820 | 4.07% |
| Secretary of Housing and Urban Dev. | 747,982 | 0.46 |
| Milwood Joint Venture II | 499,704 | 0.31 |
| Palmar Investments, Inc. | 477,418 | 0.29 |
| Southern Union Gas | 467,880 | 0.29 |
| Milburn Investments, Inc. | 368,991 | 0.22 |
| Gordon & Willodene Atkinson | 214,099 | 0.13 |
| Margaret Stephens | 184,038 | 0.11 |
| Richard Jeffrey Mackey | 179,741 | 0.11 |
| Mark & Leona Dingle | <u>172,250</u> | <u>0.11</u> |
| Total | 9,909,923 | 6.10% |

(a) Source: Williamson County Appraisal District.

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 1993 Certified Taxable Assessed Valuation of \$162,098,742. The calculations contained in the following table merely represent the tax rates required to pay the principal of and interest on the Bonds and the Outstanding District Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds are available for payment of debt service. See "DISTRICT VALUATION AND DEBT INFORMATION--Debt Service Requirements."

The Bonds and the Outstanding Obligations:

| | |
|---|-------------|
| Average Annual Debt Service Requirement (1994-2012) | \$1,397,306 |
| Tax Rate on 1993 Certified Taxable Assessed Valuation | 0.91 |
| Maximum Annual Debt Service Requirement (2005) | \$1,840,557 |
| Tax Rate on 1993 Certified Taxable Assessed Valuation | 1.20 |

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding District Bonds and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS--Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS--Sources of Payment." Under Texas law, the Board is also authorized to levy and collect an annual 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. See "TAX DATA--District Bond Tax--Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such an exemption if a majority of voters approve same at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of \$3,000 of taxable valuation. For 1993 the District granted a \$10,000 homestead exemption for persons 65 years or older or who are disabled.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted by May 1. The District has never adopted a general homestead exemption.

Freeport Goods Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. As the result of a state constitutional amendment passed by Texas voters on November 7, 1989, goods in transit ("freeport goods") are exempted from taxation by the District effective January 1, 1990.

Tax Abatement

The City of Austin and Travis and Williamson Counties may designate all or part of the area within the District as a reinvestment zone, and Travis and Williamson Counties, Round Rock Independent School District, the District, and the City of Austin may thereafter 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 any 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. No portion of the District is currently classified as a reinvestment zone, nor are any tax abatement agreements currently in place.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and formerly 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 (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland. Approximately 300 acres within the District are subject to an agricultural or open space valuation.

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

District and Taxpayer Remedies

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property 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.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS--General--Tax Collection Limitations and Foreclosure Remedies."

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

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

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Lenders have been selective in recent years in making real estate loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, although located approximately eleven (11) miles from the central downtown business district of the City of Austin, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and region economics.

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

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

Developer Under No Obligation to the District: The Developer has informed the Board of its current plans to continue to develop its land and market its lots and that it has no current plans otherwise to sell its land within the District. However, the Developer is not obligated to implement such plans on any particular schedule or at all. Thus, the furnishing of information related to the proposed development by the Developer should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer, or any other subsequent landowner to whom the Developer may sell all or a portion of its holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developer's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer. Failure to construct taxable improvements on developed lots and tracts and failure of the Developer to develop its land would restrict the rate of growth of taxable value in the District. See "THE DEVELOPER."

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 1993 assessed valuation of the District is \$162,098,742 (see "DISTRICT VALUATION AND DEBT INFORMATION"). After issuance of the Bonds, the Projected Maximum Annual Debt Service Requirement will be \$1,840,557 in 2005 and the Projected Average Debt Service Requirement will be \$1,397,306 for 1994 through 2012, inclusive. Assuming (1) no increase or decrease from the 1993 assessed valuation, and (2) no use of funds on hand, a tax rate of \$1.20 per \$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Projected Maximum Annual Debt Service requirement of \$1,840,557, and a tax rate of \$0.91 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Projected Average Annual Debt Service Requirement of \$1,397,306. The District's 1992 tax rate is \$1.15 per \$100 assessed valuation. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA--Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Registered Owners are entitled under Texas law to a writ of mandamus to compel the District to perform its obligations. Such remedy would have to be exercised upon each separate default and may prove costly, time consuming and difficult to enforce. Furthermore, there is no trust indenture or trustee, and all legal actions would have to be taken on the initiative of, and be financed by, the 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, although the Bond Order does not specifically provide for remedies to protect and enforce the interest of 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 judgement against the District, such a judgement 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

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismissed the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) 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 recent Texas legislation a municipal utility district, such as the District, must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding non-compliance by a district with Texas law requirements, a district could file a voluntary bankruptcy petition under chapter 9, thereby invoking 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 Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owner's claim against a district.

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

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time of 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") and the Resolution Trust Corporation ("RTC") when the FDIC/RTC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA real property held by the FDIC/RTC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC/RTC shall be subject to foreclosure or sale without the consent of the FDIC/RTC and no involuntary liens shall attach to such property, (ii) the FDIC or RTC 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/RTC 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/RTC, 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/RTC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC/RTC 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/RTC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC/RTC 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 "LEGAL MATTERS--Tax Exemption."

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes, bond anticipation notes, borrowings secured by a contract tax, and to borrow for any valid corporate purpose. The District's voters have authorized (i) the issuance of \$73,100,000 of unlimited tax and revenue bonds for the purpose of providing water, wastewater and storm drainage facilities to the land within its boundaries and (ii) certain obligations secured by a contract bond tax. Following the issuance of the Bonds, the District will have \$62,425,000 of unlimited tax and revenue bonds authorized but unissued. The Bond Order imposes no limitation on the amount of additional debt which may be incurred by the District and secured by ad valorem taxes. The incurrence of additional debt, may increase the District's tax rate and adversely affect the security for, and the investment quality and value of, the Bonds.

To date, the Developer, has advanced certain funds for construction of utilities for which it has not been reimbursed. The District currently owes the Developer approximately \$1,721,000 for the development currently existing within the District (see "STATUS OF DEVELOPMENT"). In order to fully reimburse the Developer, provide utility service to the remaining undeveloped but developable acres within the District, and pay for its pro rata portion of the water supply and wastewater treatment facilities, the District anticipates that it will issue bonds in installments over the next several years. Each future issue of bonds is intended to be sold at the

earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate). The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS--Issuance of Additional Debt."

LEGAL MATTERS

Legal Opinions

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

In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P., Austin, Texas has reviewed the information under the captions, "PLAN OF FINANCING", "THE BONDS" (other than the information under the subcaption "Book-Entry-Only System"), "LEGAL MATTERS", and "TAX MATTERS" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the Bond Order contained under such captions is current as to matters of law and is a fair and accurate summary of the information purported to be shown.

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

Strasburger & Price L.L.P., Austin, Texas will pass on certain legal matters for the District.

Fulbright & Jaworski L.L.P., San Antonio, Texas, will pass on certain legal matters for the Underwriter.

LITIGATION

No-Litigation Certificate

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

Verification of Arithmetical and Mathematical Computations

KPMG Peat Marwick, Houston, Texas will verify the accuracy of (i) the mathematical computations concerning the sufficiency of the maturing principal amounts of and interest earned on the Escrowed Securities, together with other uninvested moneys, to be placed in the Escrow Fund to pay when due, pursuant to stated (ii) the mathematical computations of the yield on the Bonds and the yield on the Escrowed Securities purchased with a portion of the proceeds of the sale of the Bonds. Such verification shall be based in part upon information supplied on behalf of the District by the Underwriter. KPMG Peat Marwick has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

BOND INSURANCE

The following information has been furnished by Financial Security Assurance Inc. ("Financial Security") for use in this Official Statement. Such information has not been independently verified by the District, Bond Counsel, counsel to the Underwriter, or the Underwriter and is not guaranteed as to completeness or accuracy by the District, Bond Counsel, counsel to the Underwriter, or the Underwriter and is not to be construed as a representation of the District, Bond Counsel, counsel to the Underwriter, or the Underwriter. Reference is made to Appendix C for a specimen of the municipal bond insurance policy of Financial Security.

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security will issue its Municipal Bond Insurance Policy (the "Policy"). The Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the District to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference"). The amounts referred to in clauses (i) and (ii) of the immediately preceding sentence shall be referred to herein collectively as the insured amounts (the "Insured Amounts").

The Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond. The Policy does not, under any circumstances, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis, or (iii) any Preference relating to (i) and (ii) above. The Policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other payment agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by Financial Security or its designee from the Paying Agent or any owner of a Bond the payment of an Insured Amount for which is then due, that such required payment has not been made, Financial Security on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds in an account with the Paying Agent or, if Financial Security shall have elected to appoint a fiscal agent for purposes of the Policy (the "Insurer's Fiscal Agent"), then with the Insurer's Fiscal Agent, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Bonds as are paid by Financial

Security, and appropriate instruments to effect the appointment of Financial Security as agent for such owners of the Bonds, in any legal proceeding related to payment of Insured Amounts on the Bonds, such instruments being in a form satisfactory to Financial Security, the Paying Agent or Insurer's Fiscal Agent shall disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor.

IN THE EVENT FINANCIAL SECURITY IS UNABLE TO FULFILL ITS CONTRACTUAL OBLIGATION UNDER THE POLICY, THE OWNER OF A BOND IS NOT PROTECTED BY AN INSURANCE GUARANTY FUND OR OTHER SOLVENCY PROTECTION ARRANGEMENT.

Financial Security Assurance Inc.

Financial Security is a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"), which in turn is approximately 91.6% owned by U S WEST Capital Corporation ("U S WEST") and 8.4% owned by The Tokio Marine and Fire Insurance Co., Ltd. ("Tokio Marine"). U S WEST is a subsidiary of U S WEST, Inc., which operates businesses involved in communications, data solutions, marketing services and capital assets, including the provision of telephone services in 14 states in the western and midwestern United States. Tokio Marine is a major Japanese property and casualty insurance company. No shareholder of Financial Security is obligated to pay any debt of Financial Security or any claim under any insurance policy issued by Financial Security or to make any additional contribution to the capital of Financial Security. U S WEST has announced its intention to dispose of its interest in Financial Security as part of its strategic plan to withdraw from businesses not directly involved in telecommunications. U S WEST has stated that it intends to accomplish such disposition in a manner that will maximize the value of its investment in Financial Security. In October 1993, Holdings filed with the Securities and Exchange Commission a registration statement on Form S-1 contemplating (i) an initial public offering by U S WEST of Holdings common shares, (ii) a secondary public offering by U S WEST of Holdings common shares, reducing U S WEST's ownership interest in Holdings below 50% and (iii) a restructuring transaction intended to significantly reduce Financial Security's risk of loss from certain commercial real estate transactions insured thereby. Affirmation of the triple-A ratings of the claims-paying ability of Financial Security will be a condition to the closing of the public offerings and restructuring transaction.

Financial Security is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. As of June 30, 1993, the total policyholders' surplus and contingency reserves and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in accordance with statutory accounting principles, approximately \$490,647,000 and \$231,714,000 and the total shareholders' equity and the total unearned premium reserve, respectively, of Financial Security and its consolidated subsidiaries were, in accordance with generally accepted accounting principles, approximately \$644,081,000 and \$209,930,000. Copies of Financial Security's financial statements may be obtained by writing to Financial Security at 350 Park Avenue, New York, New York 10022, Attention: Communications Department. Financial Security's telephone number is (212) 826-0100.

Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Corporation. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The Policy does not protect investors against changes in market value of the Bonds. The market value of the Bonds may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes.

Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the District the information presented under this caption for inclusion in the Official Statement.

RATINGS

The District has been notified by Moody's Investors Service ("Moody's") and Standard & Poor's Corporation ("S&P") that, based upon the municipal bond insurance policy to be issued by Financial Security Assurance Inc. upon delivery of the Bonds, the Bonds will be rated "Aaa" and "AAA", respectively (see "Bond Insurance" herein). An explanation of the significance of any such ratings may be obtained from Moody's and S&P. The ratings of the Bonds by Moody's and S&P reflect only the views of each company at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time, or that it will not be revised downward or withdrawn entirely by Moody's and S&P if, in the judgment of Moody's and S&P, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

UNDERWRITING

Rauscher Pierce Refsnes, Inc. has agreed, subject to certain conditions, to purchase the Bonds from the District at a price of \$6,695,310.54 plus accrued interest on the Current Interest Bonds to the date of initial delivery of the Current Interest Bonds to the Underwriters'. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters' will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

TAX MATTERS

Opinion

On the date of initial delivery of the bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof, (1) interest on the bonds will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "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 Opinion of Bond Counsel."

In rendering their opinion, Bond Counsel will rely upon (a) the District's no-arbitrage certificate, and (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to date of issuance of the Bonds.

The law upon which Bond Counsel have based their opinion is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such 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.

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 (the "Original Issue Discount Bonds") is less than the principal amount thereof. In such event, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Under existing law, such initial owner is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. 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 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, 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, certain S corporations with Subchapter C earnings and profits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

Interest on the Bonds is includable in the "alternative minimum taxable income" of a corporation (other than a regulated investment company or a real estate investment trust) for purposes of determining the environmental tax imposed by Section 59A of the Code. Section 59A of the Code imposes on a corporation an environmental tax, in addition to any other income tax imposed by the Code, equal to 0.12 percent of the excess of the modified alternative minimum taxable income of such corporation for the taxable year over \$2,000,000.

Interest on the Bonds may be subject to the "branch profits tax" imposed by section 884 of the Code on the effectively-connected earnings and profits of a foreign corporation doing business in the United States.

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. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., a market 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.

PREPARATION OF THE OFFICIAL STATEMENT

Financial Advisor

Robert Davis & Co. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and assisting in the preparation of the Preliminary Official Statement, and the final Official Statement. In its capacity as Financial Advisor, Robert Davis & Co. has assisted in compiling certain financial information and editing this Official Statement.

The Financial Advisor has not, however, independently verified the factual information contained in this Official Statement nor has it conducted an investigation into the affairs of persons or firms referred to in this Official Statement for the purpose of passing upon the accuracy or completeness of this Official Statement.

Sources of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Developer, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from such sources, and its inclusion herein is not to be construed as a representation on the part of the District to such effect. Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, orders, engineering and other related information set forth in the Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

The District has not, however, independently verified the factual information contained in this Official Statement nor has it conducted an investigation into the affairs of persons or firms referred to in this Official Statement for the purpose of passing upon the accuracy or completeness of this Official Statement.

Experts

In approving this Official Statement the District has relied upon the following experts. Each expert has consented to the use of information provided by such firms.

- Engineer:* The information contained in this Official Statement relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," and "THE SYSTEM" has been provided by Murfee Engineering, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.
- Appraisal District:* The information contained in this Official Statement relating to the historical breakdown of the certified taxable assessed valuations has been provided by the Williamson County Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Williamson County, including the District.
- Tax Assessor/
Collector:* The information contained in this Official Statement relating to the historical breakdown of the certified taxable assessed valuations, tax collection rates, principal taxpayers and certain other historical data concerning tax rates and tax collections has been provided by Ms. Nelda Wells Spears and is included herein in reliance upon the authority of Ms. Spears as an expert in assessing and collecting property taxes.
- Auditor:* The District's audited financial statements for the year ended September 30, 1992, were prepared by Brown, Graham and Company, P.C., Certified Public Accountants. See "APPENDIX A" for a copy of such audited financial statement.

Updating the Official Statement

If, subsequent to the date of the Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate when the District delivers the Bonds to the Underwriter, unless the Underwriter notifies the District on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Certification of Official Statement

The District, acting by and through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that, to the best of its knowledge and belief, the information, statements, and descriptions or any addenda, supplements or amendments thereto pertaining to the District and its affairs contained herein, contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

MISCELLANEOUS

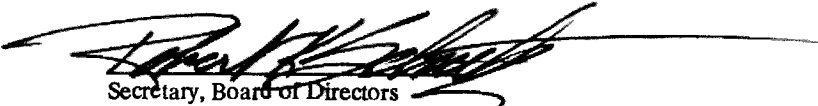
All estimates, statements and assumptions in this Official Statement and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not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

The Bond Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriter.

This Official Statement has been approved by the Board of Directors of the District for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.


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

ATTEST:


Secretary, Board of Directors
North Austin Municipal Utility District No. 1

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APPENDIX A

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
AUDIT REPORT
FOR YEAR ENDED SEPTEMBER 30, 1992**

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BROWN, GRAHAM & COMPANY
PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

P O Box 872 • Georgetown Texas 78627-0872 • 512 863-8535

To the Board of Directors of North Austin
Municipal Utility District No. 1

Independent Auditor's Report

We have audited the accompanying general purpose financial statements of North Austin Municipal Utility District No. 1, (the "District") as of September 30, 1992 and for the year ended as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 1992, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The total columns captioned "memorandum only" and the supplemental information on pages 18 through 43 which is also the responsibility of the management of the District, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the District. Such information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

Brown, Graham & Company P.C.

Georgetown, Texas
November 6, 1992

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General Purpose Financial Statements

North Austin Municipal Utility District No. 1
Combined Balance Sheet - All Fund Types and Account Groups
September 30, 1992

| <u>Assets</u> | <u>Governmental Fund Types</u> | | |
|---|--------------------------------|----------------------------------|--------------------------------------|
| | <u>General Fund</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> |
| Cash and temporary investments (note 2) | \$ 584,293 | \$ 3,048,600 | \$ 3,717,533 |
| Due from other funds | 3,380 | | |
| Accounts receivable: | | | |
| Service accounts | 115,135 | | |
| Standby Fees | | | |
| Accrued interest | | 8,817 | 3,863 |
| Delinquent taxes | 3,250 | 16,561 | |
| Other | 1,152 | | 7,209 |
| Allowance for uncollectible service accounts | (2,081) | | |
| Organizational costs | | | |
| General fixed assets (note 4) | | | |
| Amount available for retirement of general long-term debt | | | |
| Amount to be provided for retirement of general long-term debt | | | |
| Total assets | \$ <u>705,129</u> | \$ <u>3,073,978</u> | \$ <u>3,728,605</u> |
| <u>Liabilities and fund equity</u> | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenditures | \$ 130,534 | \$ 3,380 | \$ |
| Due to other funds | | | |
| Refundable deposits | 99,524 | | |
| Deferred revenue | 3,250 | 16,561 | |
| Long-term debt (note 5) | | | |
| Total liabilities | <u>233,308</u> | <u>19,941</u> | |
| Fund equity: | | | |
| Investment in general fixed assets | | | |
| Fund balance: | | | |
| Unreserved | 471,821 | | |
| Reserved for debt service | | 3,054,037 | |
| Reserved for authorized construction | | | <u>3,728,605</u> |
| Total fund equity | <u>471,821</u> | <u>3,054,037</u> | <u>3,728,605</u> |
| Total liabilities and fund equity | \$ <u>705,129</u> | \$ <u>3,073,978</u> | \$ <u>3,728,605</u> |

The accompanying notes are an integral part of these financial statements.

| Account Groups | | Totals | |
|---------------------------|------------------------------|----------------------|----------------------|
| General Fixed Asset | General Long-Term Debt | (Memorandum Only) | |
| | | 1992 | 1991 |
| \$ | \$ | \$ 7,350,426 | \$ 6,818,168 |
| | | 3,380 | 360 |
| | | 115,135 | 87,846 |
| | | | 3,110 |
| | | 12,680 | 95,607 |
| | | 19,811 | 13,311 |
| | | 8,361 | 34,954 |
| | | (2,081) | (2,208) |
| 2,859,918 | | 2,859,918 | 2,859,918 |
| 13,821,779 | | 13,821,779 | 13,818,471 |
| | 3,054,037 | 3,054,037 | 3,265,863 |
| | <u>22,075,963</u> | <u>22,075,963</u> | <u>22,489,137</u> |
| \$ <u>16,681,697</u> | \$ <u>25,130,000</u> | \$ <u>49,319,409</u> | \$ <u>49,481,427</u> |
| | | | |
| \$ | \$ | \$ 130,534 | \$ 120,304 |
| | | 3,380 | 360 |
| | | 99,524 | 85,224 |
| | | 19,811 | 13,311 |
| | <u>25,130,000</u> | <u>25,130,000</u> | <u>25,755,000</u> |
| | <u>25,130,000</u> | <u>25,383,249</u> | <u>25,974,199</u> |
| 16,681,697 | | 16,681,697 | 16,678,389 |
| | | 471,821 | 405,460 |
| | | 3,054,037 | 3,265,863 |
| | | <u>3,728,605</u> | <u>3,157,516</u> |
| <u>16,681,697</u> | | <u>23,936,160</u> | <u>23,507,228</u> |
| \$ <u>16,681,697</u> | \$ <u>25,130,000</u> | \$ <u>49,319,409</u> | \$ <u>49,481,427</u> |

North Austin Municipal Utility District No. 1
Combined Statement of Revenues, Expenditures and Changes
in Fund Balances - All Governmental Fund Types
Year Ended September 30, 1992

| | Governmental Fund Types | | |
|--|-------------------------|-------------------------|-----------------------------|
| | General Fund | Debt Service Fund | Capital Projects Fund |
| <u>Revenues</u> | | | |
| Utilities: | | | |
| Water and sewer service | \$ 761,142 | \$ | \$ |
| Customer surcharge | | | |
| Water and sewer tap connection fees | 104,950 | | |
| Penalties and interest | 15,374 | | |
| Application fees | 12,840 | | |
| Property taxes | 188,200 | 1,130,909 | |
| Pool & park fees | 49,474 | | |
| Interest and other | 29,205 | 150,682 | 148,144 |
| Lawsuit settlement | 33,334 | | |
| Total revenues | <u>1,194,519</u> | <u>1,281,591</u> | <u>148,144</u> |
| <u>Expenditures</u> | | | |
| Utilities: | | | |
| Purchased water and sewer service | 676,964 | | |
| Repairs and maintenance | 36,986 | | |
| Electric utilities | 39,242 | | |
| Water and sewer tap connection charges | 11,848 | | |
| Other | 3,072 | | |
| Professional services | 128,658 | | 426 |
| Service account collection | 89,216 | | 8,331 |
| Pool management fee and other pool and park costs | 95,065 | | |
| Tax assessment and collection | 24,730 | | |
| Insurance | 11,245 | | |
| Bad debts | 982 | | |
| Other | 6,842 | | 13 |
| Capital outlay | 3,308 | | |
| Debt service charges | | 2,580,380 | |
| Total expenditures | <u>1,128,158</u> | <u>2,580,380</u> | <u>8,770</u> |
| Other financing sources and uses: | | | |
| Sale of force main | | | 392,109 |
| City of Austin reimbursement | | | 27,955 |
| Contribution from the City of Austin | | 1,098,614 | |
| Operating transfers in | | | 11,651 |
| Operating transfers out | | (11,651) | |
| Total other financing sources and uses | | <u>1,086,963</u> | <u>431,715</u> |

The accompanying notes are an integral part of these financial statements.

| Totals | |
|-------------------|--------------------|
| (Memorandum Only) | |
| 1992 | 1991 |
| \$ 761,142 | \$ 702,625 |
| 104,950 | 103,600 |
| 15,374 | 13,829 |
| 12,840 | 10,725 |
| 1,319,109 | 1,434,760 |
| 49,474 | 41,291 |
| 328,031 | 480,685 |
| <u>33,334</u> | |
| <u>2,624,254</u> | <u>2,787,515</u> |
| 676,964 | 603,291 |
| 36,986 | 25,038 |
| 39,242 | 35,701 |
| 11,848 | 10,849 |
| 3,072 | 2,333 |
| 129,084 | 104,582 |
| 97,547 | 86,456 |
| 95,065 | 105,099 |
| 24,730 | 18,852 |
| 11,245 | 11,376 |
| 982 | 6,065 |
| 6,855 | 9,492 |
| 3,308 | 30,930 |
| <u>2,580,380</u> | <u>2,608,650</u> |
| <u>3,717,308</u> | <u>3,658,714</u> |
| 392,109 | |
| 27,955 | |
| 1,098,614 | 1,192,117 |
| 11,651 | 182,750 |
| (<u>11,651</u>) | (<u>182,750</u>) |
| <u>1,518,678</u> | <u>1,192,117</u> |

North Austin Municipal Utility District No. 1
 Combined Statement of Revenues, Expenditures and Changes
 in Fund Balances - all Governmental Fund Types
 Year ended September 30, 1992

| | <u>Governmental Fund Types</u> | | |
|---|--------------------------------|----------------------------|----------------------------|
| | <u>General</u> | <u>Debt</u> | <u>Capital</u> |
| | <u>Fund</u> | <u>Service</u> | <u>Projects</u> |
| | <u>Fund</u> | <u>Fund</u> | <u>Fund</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | \$ 66,361 | \$(211,826) | \$ 571,089 |
| Fund balances: | | | |
| Beginning of year | <u>405,460</u> | <u>3,265,863</u> | <u>3,157,516</u> |
| End of year | \$ <u><u>471,821</u></u> | \$ <u><u>3,054,037</u></u> | \$ <u><u>3,728,605</u></u> |

The accompanying notes are an integral part of these financial statements.

Totals
(Memorandum Only)

| <u>1992</u> | <u>1991</u> |
|---------------------|---------------------|
| \$ 425,624 | \$ 320,918 |
| <u>6,828,839</u> | <u>6,507,921</u> |
| \$ <u>7,254,463</u> | \$ <u>6,828,839</u> |

North Austin Municipal Utility District No. 1
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended September 30, 1992

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--------------------------------------|------------------|------------------|--|
| Revenues | | | |
| Utilities: | | | |
| Water Service | \$ 330,000 | \$ 379,019 | \$ 49,019 |
| Sewer Service | 372,000 | 382,123 | 10,123 |
| Water tap connection fees | 48,000 | 52,475 | 4,475 |
| Sewer tap connection fees | 48,000 | 52,475 | 4,475 |
| Penalties and interest | 13,500 | 15,374 | 1,874 |
| Application fees | 10,000 | 12,840 | 2,840 |
| Property taxes | 188,000 | 187,510 | (490) |
| Property tax penalties | 1,200 | 690 | (510) |
| Pool and park fees | 40,000 | 49,474 | 9,474 |
| Lawsuit settlement | 33,000 | 33,334 | 334 |
| Interest on investments | 26,400 | 27,114 | 714 |
| Miscellaneous | <u>1,000</u> | <u>2,091</u> | <u>1,091</u> |
| Total revenues | <u>1,111,100</u> | <u>1,194,519</u> | <u>83,419</u> |
| Expenditures: | | | |
| Utilities: | | | |
| Purchased water service | 283,200 | 336,015 | (52,815) |
| Purchased sewer service | 342,000 | 340,943 | 1,057 |
| Repairs and maintenance-water system | 20,000 | 28,596 | (8,596) |
| Repairs and maintenance-sewer system | 4,200 | 3,363 | 837 |
| Repairs and maintenance-lift station | 1,000 | | 1,000 |
| Mowing | 38,400 | 38,113 | 287 |
| Electricity | 20,000 | 20,295 | (295) |
| Nightwatchman lights | 20,000 | 18,947 | 1,053 |
| Water tap connection charges | 8,700 | 8,440 | 260 |
| Sewer tap connection charges | 3,600 | 3,407 | 193 |
| Meter purchases | 3,100 | 3,072 | 28 |
| Director fees | 7,000 | 5,600 | 1,400 |
| Legal fees-general | 45,600 | 45,678 | (78) |
| Legal fees-special | 30,000 | 27,488 | 2,512 |
| Engineering fees-general | 10,200 | 10,597 | (397) |
| Engineering fees-special | 30,000 | 29,796 | 204 |
| Management services | 90,000 | 89,216 | 784 |
| Auditing fees | 9,500 | 9,500 | |
| Park maintenance | 14,000 | 8,776 | 5,224 |
| Pool maintenance | 15,000 | 13,870 | 1,130 |
| Lifeguards | 35,000 | 34,306 | 694 |
| Tax appraisal fees | 22,600 | 21,669 | 931 |
| Tax collectors fees | 3,100 | 3,061 | 39 |
| Insurance | 12,000 | 11,245 | 755 |
| Permits/membership dues | 5,000 | 700 | 4,300 |
| Bad debts | 5,000 | 982 | 4,018 |
| Miscellaneous | 4,400 | 6,143 | (1,743) |
| Contingency | 20,500 | 5,032 | 15,468 |
| Capital outlay | <u>8,000</u> | <u>3,308</u> | <u>4,692</u> |
| Total expenditures | <u>1,111,100</u> | <u>1,128,158</u> | <u>(17,058)</u> |

The accompanying notes are an integral part of these financial statements.

(Continued)

North Austin Municipal Utility District No. 1
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund - continued
Year Ended September 30, 1992

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|---|-------------------|-------------------|--|
| Excess of revenues and other financing sources over expenditures and other financing uses | \$ | \$ 66,361 | \$ 66,361 |
| Fund balance, beginning of year | <u>405,460</u> | <u>405,460</u> | |
| Fund balance, end of year | \$ <u>405,460</u> | \$ <u>471,821</u> | \$ <u>66,361</u> |

The accompanying notes are an integral part of these financial statements.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 1 - Summary of significant accounting policies

North Austin Municipal Utility District No. 1 (District) was created by order of the Texas Water Commission effective November 15, 1983, in accordance with Chapter 54 of the Texas Water code. The Board of Directors held its first meeting on January 24, 1984.

The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusions would cause the reporting entities financial statements to be misleading. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The funds and account groups presented in this report are within the oversight responsibility of the Board, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14. There are no component units of the District nor is the District a component unit of any other entity.

Basis of presentation - fund accounting:

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for using a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Governmental 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 type in the financial statements. The following fund types and account groups are used by the District:

Governmental fund types:

Governmental fund types include the General Fund, Debt Service Fund and Capital Projects Fund. The governmental fund type measurement focus is based upon determination of financial position and changes in financial position (sources, used and balances of financial resources) rather than determination of net income. These fund types are maintained on the modified accrual basis of accounting.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 1 - Summary of significant accounting policies - continued

Revenues are recognized when susceptible to accrual, when they become measurable and available to pay current period liabilities. Expenditures are recognized as incurred, except for bond interest which is recognized when due. The following describes the District's Governmental Fund Types:

General Fund - The General Fund is used to account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund - The Debt Service Fund is used to account for the accumulation of financial resources, for and the payment of interest and principal on, all general obligation debts of the District.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources designated to construct or acquire capital facilities or improvements.

Account groups:

Account groups are used to establish accounting control and accountability for the District's general fixed assets and general long-term debt. The following are the District's account groups:

General fixed assets account group - This self-balancing group of accounts is established to account for all fixed assets of the District.

General long-term debt account group - This self-balancing group of accounts is established to account for the long-term liabilities of the District.

Memorandum totals:

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only for informational purposes. Adjustments to eliminate interfund transactions have not been recorded in arriving at such amounts, and the memorandum totals are not intended to fairly present the financial position or results of operations of the District taken as a whole.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 1 - Summary of significant accounting policies - continued

Cash and temporary investments:

Temporary investments consist of funds invested in the Texas Local Government Investment Pool (Tex Pool) and United States treasury bills which are recorded at cost, which approximates market value. The District is entitled to invest in obligations of the United States, the State of Texas, and certificates of deposit of state or national banks or savings and loan associations within the State.

Budgets and budgetary accounting:

Formal budgetary integration is employed as a management control device for the General Fund. Formal budgetary integration is not employed for the Debt Service and Capital Projects Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions and Board approval of all contracts. The budget is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted and unexpended appropriations lapse at year end.

General fixed assets:

General fixed assets are stated at the historical cost of assets owned by the District. Organizational costs include all costs associated with the creation of the District and the sale of bonds. Net interest cost incurred during the construction period is capitalized when material. Depreciation is not recorded on general fixed assets.

Property taxes:

Ad valorem taxes, penalties and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District.

Interfund transactions:

Transfers from one fund to another fund are reported as interfund receivables and payable if the transfer is temporary in nature and the intent is for the amount to be repaid and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 1 - Summary of significant accounting policies - continued

General long-term debt:

General obligation bonds and other forms of long-term debt supported by general revenues are obligations of the District as a whole and not its individual funds. Accordingly, such unmatured obligations of the District are accounted for in the General Long-Term Debt Account Group and payments of principal and interest relating to the general obligation bonds are recorded as expenditures in the Debt Service Fund.

Note 2 - Cash and temporary investments

Deposits:

The bond resolutions of the District's debt issues require that deposits be placed in a bank or trust company organized under the laws of the State of Texas or a national banking association located within the State of Texas. Deposits are categorized to give an indication of risk related to custody of assets assumed by the District at the end of the year. Category 1 includes deposits that are insured, or collateralized with securities held by the District or by its agent in the District's name, Category 2 includes collateralized deposits held by the pledging institution's department or agent, subject to monthly collateral review and valuation by regulatory agencies, and Category 3 includes uncollateralized, uninsured deposits. At September 30, 1992, the District's deposits are included in Category 1. At year end, the carrying amount of the District's deposits was \$120,052 and the bank balance was \$131,971.

Temporary investments:

The District's investment policy is governed by the District's bond resolutions which authorize the District to invest in obligations of the United States, the State of Texas, and certificates of deposit of state or national banks or savings and loan associations within the State. Tex Pool invests in various obligations for the United States, State of Texas or its agencies or other fully collateralized or guaranteed or insured funds.

All of the District's investments are included in Category 1 as follows:

Category 1 - investments that are insured or registered or for which the securities are held by the District or its agent in the District's name.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 2 - Cash and temporary investments - continued

Category 2 - uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent in the District's name.

Category 3 - uninsured and unregistered investments for which the securities are held by a counterparty's trust department or agent, but not in the District's name.

A summary of the District's cash and temporary investments at September 30, 1992 follows:

| <u>General Fund</u> | <u>Book Value</u> | <u>Market Value</u> |
|------------------------------|--------------------|---------------------|
| Cash | \$ 100,281 | \$ 100,281 |
| Tex Pool | <u>484,012</u> | <u>484,012</u> |
| Total | <u>\$ 584,293</u> | <u>\$ 584,293</u> |
| <u>Debt Service Fund</u> | | |
| Cash | \$ 12,998 | \$ 12,998 |
| Tex Pool | 1,145,458 | 1,145,458 |
| U.S. treasury bills | <u>1,890,144</u> | <u>1,903,724</u> |
| Total | <u>\$3,048,600</u> | <u>\$3,062,180</u> |
| <u>Capital Projects Fund</u> | | |
| Cash | \$ 6,773 | \$ 6,773 |
| Tex Pool | 404,881 | 404,881 |
| U.S. treasury bills | <u>3,305,879</u> | <u>3,310,413</u> |
| Total | <u>\$3,717,533</u> | <u>\$3,722,067</u> |

Note 3 - Property taxes

The Texas Water Code authorizes the District to levy a tax each October 1 on the assessed value listed as of the prior January 1. Assessed values are established annually by the Williamson County Appraisal District. District property tax revenues are recognized when levied to the extent that they are collected in the current year. The balance is reported as deferred revenue. Taxes receivable are due January 1 and delinquent if received after January 31 and are subject to penalty and interest charges.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 3 - Property taxes - continued

On September 26, 1991, the District levied a combined tax rate of \$1.166 per \$100 of assessed valuation to finance the operating expenditures of the District's water and wastewater system and its debt service requirements. The total 1991 tax levy was \$1,322,365 based on a taxable valuation of \$113,579,150.

Note 4 - General fixed assets

A summary of changes in general fixed assets follows:

| | Balance October 1, 1991 | Additions, Transfers and (Retirements) | Balance September 30 1992 |
|--|-------------------------------|--|---------------------------------|
| Water, Sewer and drainage facilities | \$ 11,115,926 | \$ | \$ 11,115,926 |
| Park | 1,070,923 | 3,308 | 1,074,231 |
| Engineering fees | 913,606 | | 913,606 |
| City fees | 194,000 | | 194,000 |
| Construction in progress | <u>524,016</u> | <u></u> | <u>524,016</u> |
| Total | \$ <u>13,818,471</u> | \$ <u>3,308</u> | \$ <u>13,821,779</u> |
| Additions provided by: | | | |
| General fund | \$ 35,600 | \$ 3,308 | \$ 38,908 |
| Capital projects fund | 12,450,041 | | 12,450,041 |
| Contributions by developer | <u>1,332,830</u> | <u></u> | <u>1,332,830</u> |
| | \$ <u>13,818,471</u> | \$ <u>3,308</u> | \$ <u>13,821,779</u> |

Note 5 - General long-term debt

The following is a summary of the general long-term debt transactions for the year ended September 30, 1992:

| | Balance October, 1 1991 | Retirements | Balance September 30, 1992 |
|------------------------------------|-------------------------------|-----------------------|----------------------------------|
| Contract Revenue | | | |
| Bonds | \$ 18,755,000 | \$ (425,000) | \$ 18,330,000 |
| Unlimited Tax and Revenue Bonds | <u>7,000,000</u> | <u>(200,000)</u> | <u>6,800,000</u> |
| | \$ <u>25,755,000</u> | \$ (<u>625,000</u>) | \$ <u>25,130,000</u> |

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 5 - General long-term debt - continued

In July 1989, the District defeased \$13,430,000 of its Series 1985 City of Austin, Texas Contract Revenue Bonds by placing the net proceeds of its Series 1989 City of Austin, Texas Contract Revenue Refunding Bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. On September 30, 1992, \$13,430,000 of bonds outstanding are considered defeased.

General long-term debt payable at September 30, 1992 is summarized as follows:

| <u>Series</u> | <u>Description</u> | <u>Matures</u> | <u>Interest Rates %</u> | <u>Balance September 30, 1991</u> |
|---------------|--|----------------|-------------------------|-----------------------------------|
| 1985 | City of Austin, Texas Contract Revenue Bonds | 1992-1997 | 7.75 - 9.30 | \$ 2,295,000 |
| 1986 | Unlimited Tax and Revenue Bonds | 1992-2005 | 8.875-10.25 | 4,800,000 |
| 1986A | Unlimited Tax and Revenue Bonds | 1992-2006 | 7.50 -10.00 | 2,000,000 |
| 1989 | City of Austin, Texas Contract Revenue Refund- ing Bonds | 1992-2009 | 6.40 - 7.15 | <u>16,035,000</u> |
| Total | | | | <u>\$25,130,000</u> |

Debt service requirements to maturity are summarized as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|--------------------|----------------------|----------------------|---------------------------|
| 1993 | \$ 710,000 | \$ 1,905,370 | \$ 2,615,370 |
| 1994 | 770,000 | 1,846,819 | 2,616,819 |
| 1995 | 855,000 | 1,781,006 | 2,636,006 |
| 1996 | 965,000 | 1,706,583 | 2,671,583 |
| 1997 | 1,050,000 | 1,621,065 | 2,671,065 |
| Thereafter | <u>20,780,000</u> | <u>10,686,409</u> | <u>31,466,409</u> |
| Total | \$ <u>25,130,000</u> | \$ <u>19,547,252</u> | \$ <u>44,677,252</u> |

The contract revenue bonds are supported in part by the City of Austin, Texas (the "City"). In accordance with the bond resolution, the District established a Debt Service Fund for paying the District's share of debt service on the bonds (approximately 34.8%). Payments of such amounts are remitted directly to the Trustee (see Note 6).

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 5 - General long-term debt - continued

The unlimited tax and revenue bonds are secured by and payable from a first lien and pledge of ad valorem taxes and net revenues of the District. In accordance with the bond resolution, accrued interest on the bonds from their sale date to the date of delivery plus one years' interest on the bonds was deposited in the Debt Service Fund.

Note 6 - Commitments and contingent assets and liabilities

Under the Utility Construction Agreement between the District and Milwood Joint Venture II (the "Developer") dated March 8, 1984, it was agreed that the Developer would fund the cost of projects to be constructed until such time as the District could issue bonds related to the projects. In a separate project within the District, another developer and lender also incurred costs related to District Water, wastewater and drainage facilities to be paid from future bond issuances. The agreements state that the District's obligation to reimburse for funds advanced is contingent upon the issuance of bonds or bond anticipation notes for each specific project. As of September 30, 1992, construction costs of approximately \$5.5 million had been incurred. Since the District is not obligated to reimburse the Developer until bonds are issued, no part of this amount is reflected in the general purpose financial statements of the District.

The District has a contract with the City to construct facilities for the District. Under the terms of the contract, the District has agreed to acquire and construct certain water supply and sanitary sewer collection facilities for the benefit of the City and to issue bonds to provide funds for such purpose, and the City has agreed to make semi-annual payments to the trustee for deposit in the Debt Service Fund created for the benefit of the bonds by the bond resolution in amounts sufficient to provide for payment of principal and interest on the bonds. The contract provides that upon completion of the acquisition and construction of the above facilities by the District, the City shall become the owner of the facilities, subject to the final acceptance by the City, and the City will thereafter operate and maintain the facilities at its expense. Upon final acceptance of the water supply and sewer collection facilities by the City, the District's financial statements will only reflect the District's proportionate share (34.8%) of the facilities and related bonded debt.

The District also has a contract with the City for the City to provide all the necessary water and wastewater capacity required by the District. For this service, the District is required to pay a share of the cost of constructing lines to provide water and wastewater service.

North Austin Municipal Utility District No. 1
Notes to General Purpose Financial Statements
Year Ended September 30, 1992

Note 6 - Commitments and contingent assets and liabilities -
continued

The District has filed suit against a construction contractor, engineer, and manufacturer relating to a wastewater lift station which was determined defective. On December 11, 1991, the jury returned a verdict against the engineer, contractor, manufacturer and surety company. During the year ended September 30, 1992 the District received \$50,000 less attorney's fees in full settlement of the judgement against the manufacturer. The court also entered judgements against the engineer, contractor, and surety company in the amounts of \$491,875, \$782,446 and \$2,338,207, respectively. Recovery against the engineer and the contractor is unlikely due to their respective financial conditions. An appeal to the Court of Appeals, Third District of Texas, Austin Division is currently pending as to the surety company portion of the judgement. Since the final judgement has not been determined no amount has been recorded in the accompanying financial statements.