

## CLASSIFICATION OF ASSESSED VALUATION

	1994	% OF TOTAL	1993	% OF TOTAL	1992	% OF TOTAL
Real, Residential, Single-Family	\$ 192,658,756	81.61%	\$ 154,221,258	92.89%	\$ 118,058,237	91.77%
Real, Residential, Multi-Family	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real, Vacant Lots/Tracts	3,491,227	1.48%	1,410,109	0.85%	765,805	0.60%
Real, Acreage (Land Only)	6,921,620	2.93%	6,334,002	3.82%	7,473,417	5.81%
Real, Farm and Ranch Improvements	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real, Commercial and Industrial	31,799,126	13.47%	2,579,051	1.55%	39,532	0.03%
Real & Tangible, Personal Utilities	713,860	0.30%	616,320	0.37%	689,140	0.54%
Tangible Personal, Business	475,648	0.20%	160,409	0.10%	193,445	0.15%
Tangible Personal, Other	-0-	0.00%	-0-	0.00%	-0-	0.00%
Real, Inventory	-0-	0.00%	702,000	0.42%	1,426,000	1.11%
<b>Total Appraised Value</b>	<b>\$236,060,237</b>	<b>100.00%</b>	<b>\$166,023,149</b>	<b>100.00%</b>	<b>\$128,645,576</b>	<b>100.00%</b>

Note: The above figures were taken from the State Property Tax Board District Report of Property Value or Report of the Property Tax Division of the State Comptroller's Office which is compiled during the initial phase of the tax year. Actual value of taxable property and assessed valuation figures shown elsewhere in this Official Statement represent final year-end figures.

## ASSESSED VALUATION AND TAX RATES OF OVERLAPPING ISSUERS

	1994 Assessed Valuation	% of Actual	1994 Tax Rate
Round Rock Independent School District	\$ 4,577,338,174	100%	\$1.4246
Williamson County	5,864,091,566	100%	0.3542
Travis County	26,059,639,690	100%	0.5552
City of Austin	20,956,568,787 <sup>1</sup>	100%	0.5625

<sup>1</sup> Includes \$815,333,961 in property in the appeals process.

## OVERLAPPING TAXING JURISDICTIONS GENERAL OBLIGATION BONDS AUTHORIZED BUT UNISSUED

Issuer	Date of Authorization	Purpose	Amount Authorized	Issued To-Date	Unissued
Round Rock Independent School District	10-22-94	Sch. Bldg.	\$100,135,000	\$32,500,000	\$67,635,000
Total	10-22-94	Sch. Bldg.	<u>6,800,000</u>	<u>-0-</u>	<u>6,800,000</u>
			\$106,935,000	\$32,500,000	\$74,435,000
Williamson County	None				
Travis County	09-08-84	Road Imp.	\$157,912,000	\$70,900,000	\$87,012,000
Total	11-02-93	Jail Parking	<u>67,000,000</u>	<u>7,400,000</u>	<u>60,300,000</u>
			\$224,912,000	78,300,000	\$147,312,000
City of Austin <sup>1</sup>	Various	Various	\$503,445,000	\$385,995,000	\$117,450,000
North Austin Municipal Utility District No. 1	6-4-84	W&S and Dr.	\$73,100,000	\$14,925,000 <sup>2</sup>	\$58,175,000

<sup>1</sup> Since the City of Austin's overlapping portion is less than 0.001%, the dates and purposes of authorization have not been listed individually.

<sup>2</sup> Includes the Bonds.

**ESTIMATED DIRECT AND OVERLAPPING DEBT STATEMENT**  
(As of March 1, 1995)

Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping funded debt of these various taxing bodies:

Taxing Body	Gross Debt	% Overlapping	Amount Overlapping
Round Rock Independent School District	\$ 164,328,167	3.98%	\$ 6,540,261
Williamson County	17,160,000	2.34%	401,544
Travis County	216,704,011	0.14%	303,386
City of Austin <sup>1</sup>	559,020,851	less than 0.001%	-0-
<b>Total Gross Overlapping Debt</b>			<b>\$ 7,245,191</b>
North Austin Municipal Utility District No. 1	32,625,000 <sup>2</sup>	100.00%	<u>32,625,000</u>
<b>Total Direct and Overlapping Debt</b>			<b><u>\$39,870,191</u></b>
Ratio of Direct and Overlapping Debt to 1994 Assessed Valuation			17.08%
Ratio of Direct and Overlapping Debt to 1994 Actual Value			16.89%
Per Capita 1994 (Est.) Direct and Overlapping Debt			\$5,727.65
 Note: The above figures show Gross General Obligation Debt for North Austin Municipal Utility District No. 1. The Issuer's Net General Obligation Debt after a reduction for the City of Austin, Texas share of the Contract Revenue Bonds is \$20,157,412. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:			
<b>Total Direct and Overlapping Debt</b>			<b>\$27,402,603</b>
Ratio of Direct and Overlapping Debt to 1994 Assessed Valuation			11.74%
Ratio of Direct and Overlapping Debt to 1994 Actual Value			11.61%
Per Capita 1994 (Est.) Direct and Overlapping Debt			\$3,936.59

<sup>1</sup> The 11.61 acres which lie within the City of Austin comprise public right-of-way.

<sup>2</sup> Includes the Bonds and the City of Austin Contract Bonds..

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**  
(Includes The Bonds)

Fiscal Year Ending 9/30	Current Total Debt Service <sup>1</sup>	City of Austin Contract Bonds <sup>2</sup>	The Bonds		Principal & Interest	Combined Debt Service
			Principal	Interest		
1995	\$ 836,628 <sup>3</sup>					\$ 836,628
1996	1,090,421	\$ 536,169		\$ 280,788	\$ 280,788	1,907,378
1997	1,088,576	820,147	\$ 125,000	240,675	365,675	2,274,398
1998	1,100,666	739,850	135,000	231,925	366,925	2,207,441
1999	1,120,136	836,496	150,000	222,475	372,475	2,329,107
2000	1,121,326	546,132	150,000	211,975	361,975	2,029,433
2001	1,124,946	559,873	160,000	201,475	361,475	2,046,294
2002	1,153,416	559,987	115,000	190,275	305,275	2,018,678
2003	1,150,666	569,164	135,000	182,225	317,225	2,037,055
2004	1,167,416	564,871	130,000	172,775	302,775	2,035,062
2005	1,203,491	566,327	100,000	163,675	263,675	2,033,493
2006	501,901	571,471	230,000	156,675	386,675	1,460,047
2007	291,056	576,604	250,000	144,715	394,715	1,262,375
2008	289,500	579,891	260,000	131,278	391,278	1,260,669
2009	293,250	581,545	275,000	117,237	392,237	1,267,032
2010	301,250	620,836	290,000	102,112	392,112	1,314,198
2011	303,250		320,000	87,250	407,250	710,500
2012	304,500		325,000	71,250	396,250	700,750
2013			345,000	55,000	400,000	400,000
2014			365,000	37,750	402,750	402,750
2015			390,000	19,500	409,500	409,500
	<u>\$14,442,395</u>	<u>\$9,229,363</u>	<u>\$4,250,000</u>	<u>\$3,021,030</u>	<u>\$7,271,030</u>	<u>\$30,942,788</u>

<sup>1</sup> Does not include the City of Austin Contract Bonds.

<sup>2</sup> The District's share of debt service of the Contract Bonds is approximately 34.81%.

<sup>3</sup> August 1, 1995 interest payment.

**TAX ADEQUACY**

1994 Assessed Valuation	\$233,432,094
Maximum Net Debt Service Requirements for Fiscal Year Ending 9-30-1999	2,329,107
Indicated Interest and Sinking Fund Tax Rate	1.0182
Indicated Interest and Sinking Fund Tax Levy	2,376,806
Estimated 98% Tax Collections	2,329,269

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**  
(Includes the Bonds)

Fiscal Year Ending 9-30	Currently Outstanding Obligations Principal Repayment Schedule <sup>1</sup>	City of Austin Contract Bonds Principal Repayment Schedule <sup>2</sup>	The Bonds Repayment Schedule	Combined Principal Repayment Schedule	Obligations Remaining Outstanding End of Year	Percent of Principal Retired (%)
1995	\$ 620,000			\$ 620,000	\$19,537,416	
1996	680,000	\$ 214,082		894,082	18,643,334	
1997	725,000	522,150	\$ 125,000	1,372,150	17,271,184	
1998	770,000	468,195	135,000	1,373,195	15,897,989	
1999	825,000	591,770	150,000	1,566,770	14,331,219	28.90%
2000	865,000	323,733	150,000	1,338,733	12,992,486	
2001	910,000	351,581	160,000	1,421,581	11,570,905	
2002	295,000	367,246	115,000	777,246	10,793,659	
2003	295,000	393,353	135,000	823,353	9,970,306	
2004	300,000	407,277	130,000	837,277	9,133,029	54.69%
2005	1,055,000	428,163	100,000	1,583,163	7,549,866	
2006	405,000	454,271	230,000	1,089,271	6,460,595	
2007	215,000	482,119	250,000	947,119	5,513,476	
2008	225,000	509,967	260,000	994,967	4,518,509	
2009	240,000	537,815	275,000	1,052,815	3,465,694	82.81%
2010	260,000	605,694	290,000	1,155,694	2,310,000	
2011	275,000		320,000	595,000	1,715,000	
2012	290,000		325,000	615,000	1,100,000	
2013			345,000	345,000	755,000	
2014			365,000	365,000	390,000	
2015			<u>390,000</u>	<u>390,000</u>	-0-	100.00%
	<u>\$9,250,000</u>	<u>\$6,657,416</u>	<u>\$4,250,000</u>	<u>\$20,157,416</u>		

<sup>1</sup> Does not include the City of Austin Contract Bonds.

<sup>2</sup> Includes only the Issuer share under the Contract which is approximately 34.81%.

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

General Obligation Interest and Sinking Fund Accumulated Balance as of March 31, 1995	\$ 947,333
Estimated 97% Tax Collections from the levy of a \$0.7200 I&S Fund Tax Rate in Fiscal Year ended 9-30-95.	<u>1,630,290</u>
Total Available for Debt Service	<u>\$2,577,623</u>
General Obligation Principal and Interest Requirements for Year Ending 9-30-95 <sup>1</sup> [Includes the District's remaining portion of the payments under the Contract]	\$1,390,672

<sup>1</sup> Excludes the 2/1/95 payment of the Unlimited Tax and Revenue Bonds. Includes the 5/15/95 and the 11/15/95 City of Austin, Texas Contract Revenue Bonds

## INVESTMENT CONSIDERATIONS

### General

The Bonds, which are obligations of the Issuer 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 "BOND INFORMATION - Security for the Bonds" herein.) The ultimate security for payment of principal and interest on the Bonds depends on the ability of the Issuer 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 Issuer and by other taxing authorities. The collection by the Issuer of delinquent taxes owed to it and the enforcement by registered owners of the Issuer's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the Issuer 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 Issuer 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 therein 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 Issuer 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 Issuer 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 Issuer, 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 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 Issuer. The Issuer 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 Issuer:* The Developer has informed the Board of its current plans to continue to develop its land and market its homes 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 and home construction should not be interpreted as such a commitment. The Issuer 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 Issuer

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" herein.)

#### **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 property owners within the District to pay their taxes. The 1994 assessed valuation of the Issuer is \$233,432,094 (see "DISTRICT VALUATION AND DEBT INFORMATION"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$2,329,107 in 1999 and the Average Debt Service Requirement will be \$2,062,853 for 1996 through 2010, inclusive. Assuming (1) no increase or decrease from the 1994 assessed valuation, and (2) no use of funds on hand, a tax rate of \$1.082 per \$100 assessed valuation, at a 98% collection rate, would be necessary to pay the Maximum Annual Debt Service requirement of \$2,329,107, and a tax rate of \$0.9018, per assessed valuation at a 98% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$2,062,853. The Issuer's 1994 tax rate is \$0.8600 per \$100 assessed valuation. (See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service" herein.)

#### **Tax Collections and Foreclosure Remedies**

The Issuer 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 Issuer 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 judgment against the Issuer, such a judgment could not be enforced by direct levy and execution against the Issuer'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 Issuer.

#### **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 Issuer. Subject to the requirements of Texas law discussed below, a political subdivision such as the Issuer 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 Issuer, 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 impractical. Under recent Texas legislation, a municipal utility district, such as the Issuer, must obtain the approval of the TNRCC as a condition to seeking relief under the Federal Bankruptcy Code. The TNRCC 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 owners' 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.

#### **Marketability**

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

#### **Continuing Compliance with Certain Covenants**

Failure of the Issuer to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. (See "TAX MATTERS - Collateral Federal Income Tax Consequences" herein.)

#### **Future Debt**

The Issuer 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 Issuer'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 Issuer will have \$58,175,000 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 Issuer and secured by ad valorem taxes. The incurring of additional debt may increase the Issuer'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. After reimbursements made with Bond proceeds, the Issuer will owe the Developer approximately \$1,000,000 for the development currently existing within the District. (See "STATUS OF DEVELOPMENT" herein.) 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 Issuer 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 Issuer 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 TNRCC 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.

## 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 for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "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" herein.)

In rendering their opinion, Bond Counsel will rely upon (a) the Issuer's no-arbitrage certificate and (b) covenants of the Issuer 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 Issuer to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The law upon which Bond Counsel have based their opinion is subject to change by the United States 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.

### Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible by such taxpayer in determining taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer which is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," which are designated by an issuer as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any subordinate issuer) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as referring to any corporation described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business which is subject to federal or state supervision as a financial institution.

The Issuer has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action which would assure, or to refrain from such action which would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public (or, in the case of discount bonds, the amount payable at maturity) exceeds \$10,000,000, then such obligations might fail to satisfy the \$10,000,000 limitation and the obligations would not be "qualified tax-exempt obligations".

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

The initial public offering price to be paid for certain of the Bonds, as stated on the cover of the Official Statement (the "Original Issue Discount Bonds"), is less than the principal amount thereof. The difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial public offering of the Bonds constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. 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 equal to that portion of the amount of such original issue discount allocable to the period that such original issue discount 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 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, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of interest accrued upon 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, sale or other disposition of such Original Issue Discount Bonds.

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

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

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with 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 income 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 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; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e. the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Over a period of years, the Texas Legislature has enacted four statutes which pertain to the eligibility of bonds issued by a municipal utility district as investments for certain entities and as security for deposits of public funds: Section 54.515, Texas Water Code; Article 717k-6, Vernon's Annotated Texas Civil Statutes; Chapter 2256, Texas Government Code (the "Public Funds Investment Act") and Chapter 2257, Texas Government Code (the "Public Funds Collateral Act"). Reconciliation of these four conflicting statutes leads to the following conclusions: (1) banks, savings and loan associations, insurance companies, fiduciaries, trustees, and the State of Texas may invest in unrated bonds; (2) bonds may be used to secure the deposit of public funds; and (3) political subdivisions of the State of Texas may not invest in bonds unless they have been rated by a nationally-recognized investment rating firm and received a rating of not less than "A" or its equivalent.

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

### **LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE**

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. In its capacity as Bond Counsel, McCall, Parkhurst & Horton L.L.P. has reviewed the information appearing in this Official Statement under the captions "BOND INFORMATION", "TAX MATTERS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", and "LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE" to determine whether such information fairly summarizes the material and documents referred to therein and is correct as to matters of law. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the Issuer for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will be printed on the definitive Bonds and the form of such opinion is attached hereto as Appendix B.

## RATINGS

Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Group ("S&P's") have rated the Bonds "Aaa" and "AAA", respectively, based upon a municipal bond guaranty insurance policy issued by Capital Guaranty Insurance Company. An explanation of the significance of the ratings may be obtained from Moody's and S&P's. The Issuer's Unlimited Tax and Revenue Bonds, Series 1993 were rated Baa by Moody's. The rating of the Bonds by Moody's and S&P's reflect only the view of such companies at the time the ratings were given, and the Issuer makes no representations as to the appropriateness of the ratings. There is no assurance that said ratings will continue for any given period of time, or that they will not be revised downward or withdrawn entirely by Moody's and S&P's if, in the judgment of Moody's and S&P's, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

## LITIGATION

In the opinion of certain officials of the Issuer, the Issuer is not a party to any litigation or other proceeding pending or to their knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the Issuer, would have a material adverse effect on the financial condition of the Issuer. For additional information, see "THE DISTRICT - Pending Litigation" herein.

## PURCHASER

After requesting competitive bids for the Bonds, the Issuer has accepted the bid of Rauscher Pierce Refsnes, Inc. (the "Purchaser") to purchase the Bonds at the interest rates shown on page 2 of this Official Statement at a price of 97% of par plus accrued interest to the date of delivery. No assurance can be given that any trading market will be developed for the Bonds after their sale by the Issuer to the Purchaser. The Issuer has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by and are the sole responsibility of the Purchaser.

## PRICES AND MARKETABILITY

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

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

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

## PREPARATION OF THE OFFICIAL STATEMENT

### Financial Advisor

Rauscher Pierce Refsnes, Inc. is employed as the Financial Advisor to the Issuer to render certain professional services, including advising the Issuer on a plan of financing and assisting in the preparation of the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Rauscher Pierce Refsnes, Inc. 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. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds. The Issuer has permitted Rauscher Pierce Refsnes, Inc. the option to bid on the Bonds. Rauscher Pierce Refsnes, Inc. may submit a bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds.

### Sources of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the Issuer'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 Issuer 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 Issuer 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 Issuer 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 Issuer 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 Company, 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 Issuer.
- 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.

### Updating the Official Statement

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

### Continuing Disclosure

Under Texas law, the Issuer must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the Issuer, and must file each audit report with the TNRCC within 135 days after the close of the fiscal year. Copies of each audit report must also be filed in the office of the Issuer and with the City of Austin. The Issuer's fiscal records and audit reports are available for public inspection during regular business hours, and the Issuer is required by law to provide a copy of the Issuer's audit reports to any bondholder or other member of the public within a reasonable time on request and upon payment of applicable copying charges. Requests for copies should be addressed to the Issuer in care of Strasburger & Price L.L.P., 2600 One American Center, Austin, Texas 78701-3180. Except for its obligation to comply with the foregoing legal requirements, the Issuer has not agreed and does not expect to

provide Bondholders with continuing information about its financial condition, results of operations, or other data subsequent to issuance of the Bonds.

#### **Certification of the Official Statement**

The Issuer, 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 Issuer 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 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 Issuer, the Issuer 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 Issuer.

#### **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.

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

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

ATTEST:

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

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## **APPENDICES**

The information contained in Appendix A consists of a map depicting the District's Boundary.

The information contained in Appendix B consists of the Legal Opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel.

The information contained in Appendix C consists of excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the North Austin Municipal Utility District No. 1, Austin, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 1994, and is not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.

The information contained in Appendix D consists of a specimen municipal bond guaranty insurance policy and balance sheet of Capital Guaranty Insurance Company.

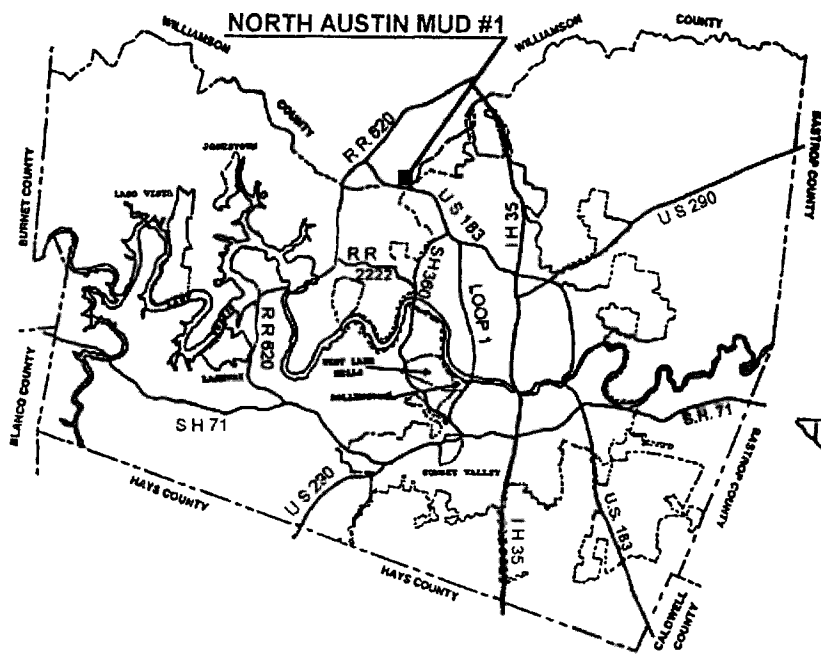
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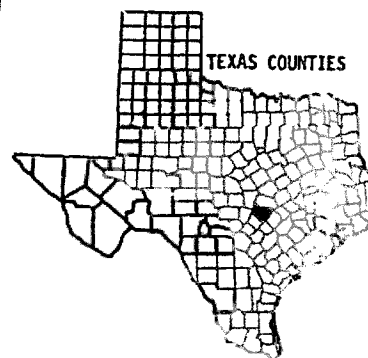
## **APPENDIX A**

The information contained in this Appendix consists of a map depicting the District's Boundary.

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MAP OF TRAVIS COUNTY



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## **APPENDIX B**

The information contained in this Appendix consists of the Legal Opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel.

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LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

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**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX AND REVENUE BONDS, SERIES 1995  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,250,000**

**AS BOND COUNSEL FOR THE ISSUER** (the "Issuer") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the Issuer adopted on June 21, 1995, authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond Numbered T-1) and printer's specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT** the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered, and that, assuming due authentication, Bonds issued in exchange therefor will have been duly delivered, in accordance with law, and that said Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights, constitute valid and legally binding obligations of the Issuer, payable from ad valorem taxes to be levied and collected by the Issuer upon taxable property within the Issuer, which taxes the Issuer has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. The Bonds are additionally payable from a pledge of Net Revenues, if any, of the Issuer's Waterworks and Sewer System, as defined in the Order. Such covenant to levy taxes and pledge Net Revenues is subject to the right of a city, under existing Texas law, to annex all of the territory within the Issuer; to take over all properties and assets of the Issuer; to assume all debts, liabilities, and obligations of the Issuer, including the Bonds; and to abolish the Issuer.

**THE ISSUER** reserves the right to issue additional bonds which will be payable from taxes on a parity with Bonds; bonds, notes, and other obligations of inferior liens; and bonds payable from contracts with other persons, including private corporations, municipalities, and political subdivisions.

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

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

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is (a) included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax and the environmental tax imposed on corporations by Sections 55 and 59A of the Code, (b) subject to the branch profits tax imposed on foreign corporations by Section 884 of the Code and (c) included in the passive investment income of the subchapter S corporation and subject to the tax imposed by Section 1375 of the Code.

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

**WE HAVE ACTED AS BOND COUNSEL** for the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds described above under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on such Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, and have not assumed any responsibility with respect thereto. We have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and the assessed valuation of taxable property within the Issuer.

Respectfully,



## **APPENDIX C**

The information contained in this Appendix consists of excerpts (Table of Contents, Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements), from the North Austin Municipal Utility District No. 1, Austin, Texas Comprehensive Annual Financial Report for the fiscal year ended September 30, 1994, and is not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.

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# NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

## TABLE OF CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS:	
Combined Balance Sheet - All Governmental Fund Types and Account Groups	2
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types	3
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	4
Notes to Financial Statements	5
SUPPLEMENTAL INFORMATION:	
Index of Supplemental Schedules Required by the Texas Natural Resources Conservation Commission	14
Supplemental Schedules	15-35

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of North Austin Municipal Utility District No. 1 (the "District") as of and for the year ended September 30, 1994, 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, 1994, 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 supplemental information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the District. Such supplemental information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

*Maxwell Locke & Ritter, p.c.*

January 13, 1995

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS  
SEPTEMBER 30, 1994

	GOVERNMENTAL FUND TYPES			ACCOUNT GROUPS		TOTALS	
	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	GENERAL	LONG-TERM	(MEMORANDUM ONLY)	
				FIXED ASSETS	DEBT	1994	1993
ASSETS							
Cash	\$ 52,270	107,110	3,467,936	-	-	3,627,316	4,347,473
Temporary investments	593,568	3,321,105	405,531	-	-	4,320,204	6,836,605
Due from other funds	37,082	7,503	-	-	-	44,585	28,017
Accounts Receivable:							
Service accounts	168,315	-	-	-	-	168,315	115,047
Accrued interest	-	66,363	15,690	-	-	82,053	50,964
Delinquent taxes	2,592	18,496	-	-	-	21,088	21,358
Other	12,140	-	-	-	-	12,140	-
Allowance for uncollectible accounts	(1,671)	-	-	-	-	(1,671)	(1,671)
Organization costs	-	-	-	2,859,918	-	2,859,918	2,859,918
General fixed assets	-	-	-	16,616,400	-	16,616,400	16,254,388
Amount available for retirement of general long-term debt	-	-	-	-	3,428,215	3,428,215	3,447,161
Amount to be provided for retirement of general long-term debt	-	-	-	-	25,501,785	25,501,785	24,322,839
TOTAL	\$ 864,296	3,520,577	3,889,157	19,476,318	28,930,000	56,680,348	58,282,099
LIABILITIES AND FUND EQUITY							
LIABILITIES:							
Accounts payable and accrued expenditures	116,196	-	1,940	-	-	118,136	3,031,671
Due to other funds	-	6,285	38,300	-	-	44,585	28,017
Refundable deposits	108,560	-	-	-	-	108,560	113,818
Deferred revenue	2,592	18,496	-	-	-	21,088	21,358
Bonds payable	-	-	-	-	1,175,000	1,175,000	1,145,000
Bonds payable - noncurrent	-	-	-	-	27,755,000	27,755,000	26,625,000
Total liabilities	227,348	24,781	40,240	-	28,930,000	29,222,369	30,964,864
FUND EQUITY:							
Investment in general fixed assets	-	-	-	19,476,318	-	19,476,318	19,114,306
Fund balances:							
Unreserved	636,948	-	-	-	-	636,948	734,767
Reserved for debt service	-	3,495,796	-	-	-	3,495,796	3,447,161
Reserved for authorized construction	-	-	3,848,917	-	-	3,848,917	4,021,001
Total fund equity	636,948	3,495,796	3,848,917	19,476,318	-	27,437,979	27,317,235
TOTAL	\$ 864,296	3,520,577	3,889,157	19,476,318	28,930,000	56,680,348	58,282,099

See notes to financial statements.

# 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, 1994

	GOVERNMENTAL FUND TYPES			TOTALS	
	GENERAL	DEBT SERVICE	CAPITAL PROJECTS	(MEMORANDUM ONLY)	
				1994	1993
REVENUES:					
Utilities:					
Water and sewer service	\$ 892,256	-	-	892,256	788,239
Commercial tap fees	-	-	-	-	199,222
Water and sewer tap connection fees	122,060	-	-	122,060	110,400
Application fees	30,088	-	-	30,088	30,064
Other	-	-	-	-	4,115
Property taxes	182,060	1,479,212	-	1,661,272	1,477,563
Pool and park fees	52,380	-	-	52,380	50,734
Interest and other	63,793	152,853	128,608	345,254	271,086
Total revenues	1,342,637	1,632,065	128,608	3,103,310	2,931,425
EXPENDITURES:					
Utilities:					
Purchased water and sewer service	760,872	-	-	760,872	610,259
Repairs and maintenance	42,658	-	-	42,658	37,340
Electric utilities	29,877	-	-	29,877	29,498
Water and sewer tap connection charges	16,844	-	-	16,844	12,684
Commercial tap connection charges	-	-	-	-	76,967
Professional services	86,923	-	41,404	128,327	158,342
Service accounts collection	121,369	-	-	121,369	102,954
Pool management fee and other pool and park costs	253,449	-	-	253,449	174,118
Tax assessment and collection	3,288	26,895	-	30,183	26,426
Insurance	10,071	-	-	10,071	10,016
Bad debts	598	-	-	598	899
Official and other	11,782	-	-	11,782	12,900
Capital outlay	102,725	-	259,288	362,013	2,824,718
Debt service - interest and fiscal charges	-	25,721,592	-	25,721,592	2,876,318
Total expenditures	1,440,456	25,748,487	300,692	27,489,635	6,953,439
OTHER FINANCING SOURCES					
Contribution from the City of Austin	-	983,252	-	983,252	1,120,480
Contribution from developer	-	-	-	-	500,000
Proceeds from sale of bonds	-	23,181,805	-	23,181,805	3,350,000
Total other financing sources	-	24,165,057	-	24,165,057	4,970,480
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(97,819)	48,635	(172,084)	(221,268)	948,466
FUND BALANCES;					
Beginning of year	734,767	3,447,161	4,021,001	8,202,929	7,254,463
End of year	\$ 636,948	3,495,796	3,848,917	7,981,661	8,202,929

See notes to financial statements.

# 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, 1994

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
<b>REVENUES:</b>			
Utilities			
Water and sewer service	\$ 752,400	892,256	139,856
Water and sewer tap connection fees	96,000	122,060	26,060
Application fees	28,800	30,088	1,288
Property taxes	178,200	182,060	3,860
Pool and park fees	50,000	52,380	2,380
Interest on investments	30,000	31,050	1,050
Miscellaneous	9,600	32,743	23,143
Total revenues	<u>1,145,000</u>	<u>1,342,637</u>	<u>197,637</u>
<b>EXPENDITURES:</b>			
Utilities:			
Purchased water and sewer service	637,200	760,872	(123,672)
Repairs and maintenance	45,000	42,658	2,342
Electricity	9,600	9,401	199
Nightwatchman lights	21,600	20,476	1,124
Water and sewer inspection fees	21,600	16,844	4,756
Directors' fees	4,800	5,450	(650)
Legal fees - general	48,000	56,394	(8,394)
Engineering fees	22,200	15,079	7,121
Management services	102,000	121,369	(19,369)
Auditing fees	9,500	10,000	(500)
Park maintenance	108,000	181,494	(73,494)
Pool management	34,600	30,163	4,437
Pool maintenance	28,000	35,086	(7,086)
Tax appraisal and collectors fees	3,500	3,288	212
Insurance	12,000	10,071	1,929
Bad debts	1,200	598	602
Miscellaneous	14,400	11,782	2,618
Capital outlay	-	102,725	(102,725)
Contingency	21,800	6,706	15,094
Total expenditures	<u>1,145,000</u>	<u>1,440,456</u>	<u>(295,456)</u>
<b>EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES</b>	-	(97,819)	(97,819)
<b>FUND BALANCE:</b>			
Beginning of year	<u>734,767</u>	<u>734,767</u>	-
End of year	<u>\$ 734,767</u>	<u>636,948</u>	<u>(97,819)</u>

See notes to financial statements.



# NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 1994

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

North Austin Municipal Utility District No. 1 (the "District"), was created on November 15, 1983, in accordance with Article XVI, Section 29 of the Constitution of the State of Texas (the "State") and 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. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

**Basis of Presentation** - 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, the Debt Service Fund and the Capital Projects Fund. The Governmental Fund Type measurement focus is based upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than determination of net income. These fund types are maintained on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual; i.e., when they become measurable and available to pay current period liabilities. Expenditures are recognized as incurred, except for interest on long-term debt 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 financial resources 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, the payment of interest and principal on, and the payment of related costs for 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.

**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 proposed by the District Manager for the fiscal year commencing the following October 1, and is adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted and unexpended appropriations lapse at year end.

**Cash and Temporary Investments** - Temporary investments may consist of certificates of deposit, United States treasury bills and investments in the Texas Local Government Investment Pool ("TexPool") and 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.

**General Fixed Assets** - General fixed assets, including infrastructure assets, are stated at the historical cost owned by the District. Net interest cost incurred during the construction period is capitalized when material. No depreciation is provided with respect to such assets. Organizational costs include all costs associated with the creation of the District and the sale of bonds.

**General Long-Term Debt** - General obligation bonds 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.

**Fund Balances** - Designated fund balances indicates fund equity for which the District has made tentative plans. Undesignated fund balance indicates equity which has not been designated and is available for use in future periods. Reserved fund balance represents equity which is legally segregated for a specific purpose.

**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 between funds are reported as interfund receivables and payables 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.

**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.

## 2. CASH AND TEMPORARY INVESTMENTS

The District's deposits are held by 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.

The deposits held at financial institutions can be categorized according to three levels of risk as follows:

- Category 1 - Deposits which are insured or collateralized with securities held by the entity or by its agent in the District's name.
- Category 2 - Deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.
- Category 3 - Deposits which are uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Cash at September 30, 1994 consisted of the following:

	General		Debt Service		Capital Projects	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Category 1:						
District bank accounts	\$ 52,270	68,845	22,729	22,729	729	1,024
Category 2:						
None	-	-	-	-	-	-
Category 3:						
Trust cash funds	-	-	84,381	84,381	3,467,207	3,467,207
Totals	<u>\$ 52,270</u>	<u>68,845</u>	<u>107,110</u>	<u>107,110</u>	<u>3,467,936</u>	<u>3,468,231</u>

Similar to cash deposits, investments can be categorized according to three levels of risk as follows:

- Category 1 - Investments that are insured, registered or held by the District or by its agent in the District's name.
- Category 2 - Investments that are uninsured and unregistered held by the counterparty's trust department or agent in the District's name.
- Category 3 - Uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the District's name.

The District is also 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. A portion of the District's investments are in TexPool.

Investments in TexPool consist of deposits offered to local governments by the State Treasury government investment pool ("TexPool"). In accordance with Governmental Accounting Standards Board Statement No. 3 ("GASB 3"), the investments in TexPool at September 30, 1994 are not categorized in the three risk categories provided by GASB 3 because the investment is in a pool of funds and therefore not evidenced by securities that exist in physical or book entry form. TexPool, of the Texas State Treasury Safekeeping Trust Company, (the "Trust Co."), is established as a trust fund, separate from all other trustors, investments, and activities of the Trust Co. Only local governments having contracted to participate in TexPool have an investment interest in its pool of assets.

Investments at September 30, 1994 consisted of the following:

	General		Debt Service		Capital Projects	
	Carrying Amount	Market Value	Carrying Amount	Market Value	Carrying Amount	Market Value
Categorized Amounts: (All						
Category 1):						
U.S. Treasury Bills	-	-	499,357	502,334	-	-
U.S. Treasury Bonds	-	-	1,803,323	1,737,357	-	-
Total	-	-	2,302,680	2,239,691	-	-
Investment in TexPool	\$ 593,568	585,614	1,018,425	1,004,778	405,531	400,097
Totals	\$ 593,568	585,614	3,321,105	3,244,469	405,531	400,097

### 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 for all real and business personal property located within its boundaries. Assessed values are established annually by the Williamson and Travis County Appraisal Districts. District property tax revenues are recognized when levied to the extent that they are collected in the current year. The uncollected balance is reported as deferred revenue.

Taxes receivable are due January 1 and are delinquent if received after January 31 and are subject to penalty and interest charges.

On September 1, 1993, the District levied a combined tax rate of \$1.01 per \$100 of assessed valuation to finance the operating expenditures and debt service requirements of the District. The total 1994 tax levy was \$1,650,532 based on a taxable valuation of \$163,419,010.

#### 4. GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance October 1, 1993	Additions, Transfers and (Retirements)	Balance September 30, 1994
Water, sewer and drainage facilities	\$ 14,072,551	259,287	14,331,838
Park	1,074,231	102,725	1,176,956
Engineering fees	913,606		913,606
City fees	194,000		194,000
Total	<u>\$ 16,254,388</u>	<u>362,012</u>	<u>16,616,400</u>

#### 5. GENERAL LONG-TERM DEBT

Following is a summary of general long-term debt transactions for the year ended September 30, 1994

	Balance October 1, 1993	Additions	Retirements	Balance September 30, 1994
Contract Revenue Bonds	\$ 17,870,000	16,570,000	14,760,000	19,680,000
Unlimited Tax and Revenue Bonds	9,900,000	5,625,000	6,275,000	9,250,000
Total	<u>\$ 27,770,000</u>	<u>22,195,000</u>	<u>21,035,000</u>	<u>28,930,000</u>
Balance comprised of:				
Bonds due within one year				1,175,000
Noncurrent portion				27,755,000
Total				<u>28,930,000</u>

General long-term debt payable at September 30, 1994 is summarized as follows:

Series	Description	Matures Through	Interest Rates %	Balance September 30, 1994
1985	City of Austin, Texas Contract Revenue Bonds	1997	8.50-9.20	\$ 1,350,000
1986	Unlimited Tax and Revenue Bonds	1996	8.00-8.875	475,000
1986A	Unlimited Tax and Revenue Bonds	1996	7.5-10.00	175,000
1989	City of Austin, Texas Contract Revenue Refunding Bonds	1999	6.60-7.15	1,760,000
1993	Unlimited Tax and Revenue Bonds	2012	5.00-7.40	3,240,000
1993A	Unlimited Tax and Revenue Bonds	2006	2.70-5.10	5,360,000
1994	City of Austin, Texas Contract Revenue and Refunding Bonds	2010	3.50-5.20	16,570,000
Total				<u>\$ 28,930,000</u>

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

Fiscal Year	Principal	Interest	Total
1995	\$ 1,175,000	1,424,777	2,599,777
1996	1,295,000	1,335,695	2,630,695
1997	2,225,000	1,219,644	3,444,644
1998	2,115,000	1,111,062	3,226,062
1999	2,525,000	998,171	3,523,171
Thereafter	19,595,000	7,699,740	27,294,740
Total	<u>\$ 28,930,000</u>	<u>13,789,089</u>	<u>42,719,089</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 City (see Note 6).

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 two years' interest on the bonds was deposited in the Debt Service Fund.

On October 27, 1993, the District issued \$5,625,000 in Unlimited Tax and Revenue Refunding Bonds which consisted of \$5,230,000 in Current Interest Bonds and \$395,000 in Capital Appreciation Bonds with an average interest rate of 3.9 percent to advance refund \$3,950,000 of outstanding 1986 Series Unlimited Tax and Revenue Bonds with an average interest rate of 8.58 percent and \$1,675,000 of outstanding 1986A Series Unlimited Tax and Revenue Bonds with an average interest rate of 8.5 percent. The net proceeds of \$6,502,354 (after payment of approximately \$259,000 in underwriting fees and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the bonds advance refunded. As a result, \$3,950,000 to the 1986 Series Unlimited Tax and Revenue Bonds and \$1,675,000 of the 1986A Unlimited Tax and Revenue Bonds are considered to be defeased and the liability for these bonds was removed from the general long-term debt account group. The remaining 1986 Series Unlimited Tax and Revenue Bonds and 1986A Series Unlimited Tax and Revenue Bonds will continue to be retired annually through 1997. The District advance refunded the bonds to reduce its total debt service payments over the next 10 years by approximately \$708,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$552,000.

On February 1, 1994, the District issued \$16,570,000 in City of Austin, Texas Contract Revenue Refunding Bonds with an average interest rate of 4.35 percent to advance refund \$270,000 of outstanding 1985 Series City of Austin, Texas Contract Revenue Bonds with an interest rate of 9.3 percent and \$13,995,000 of outstanding 1989 Series City of Austin, Texas Contract Revenue Refunding Bonds with an average interest rate of 7.05 percent. The net proceeds of \$16,297,820 (after payment of approximately \$405,000 in underwriting fees and other issuance costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the portion of the bonds advance refunded. As a result \$270,000 of the 1985 Series City of Austin, Texas Contract Revenue Bonds and \$13,995,000 of the 1989 Series City of Austin, Texas Contract revenue Refunding Bonds are considered to be defeased and the liability for these bonds was removed from the general long-term debt account group. The remaining 1985 Series City of Austin, Texas Contract Revenue Refunding Bonds will continue to be retired annually through 1999. The District advance refunded the bonds to reduce its total debt service payments over the next 12 years by approximately \$297,000 and to obtain an economic gain (difference between the present value of the debt Service payments of the old and new debt of approximately \$402,000).

In prior years, the District defeased certain outstanding general obligation bonds through the 1989 Series City of Austin, Texas Contract Revenue Refunding Bonds by placing the proceeds of the new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At September 30, 1994, outstanding bonds of \$33,320,000 are considered defeased by the 1989, 1993A and 1994 General Obligation Series.

The Series 1985 Contract Revenue Bonds are subject to optional redemption, in whole or in part, on or after November 15, 1996 at 101.5% of par value plus accrued interest.

The Series 1989 Contract Revenue Refunding Bonds are subject to redemption, in whole or in part, on or after November 15, 1998 at the option of the District, as directed by the City. The redemption prices are as follows:

	<u>Redemption Price</u>
November 15, 1998 to November 14, 1999	101.5%
November 15, 1999 to November 14, 2000	101.0
November 15, 2000 to November 15, 2001	100.5
November 15, 2001 and thereafter	100.0

The Series 1986 and Series 1986A District Bonds are subject to redemption, in whole or in part, on or after August 1, 1996 at the option of the District. The redemption prices are as follows:

	<u>Redemption Price</u>
August 1, 1997 to July 31, 1998	101.5%
August 1, 1998 to July 31, 1999	101.0
August 1, 1999 to July 31, 2000	100.5
August 1, 2000 and thereafter	100.0

The Series 1993 District Bonds are subject to optional redemption, in whole or in part, on or after August 1, 2004 at par value plus accrued interest.

At September 30, 1994, the District had \$62.425 million of unlimited tax and revenue bonds authorized by the voters of the District, but unissued.

## **6. COMMITMENTS AND CONTINGENT LIABILITIES**

The District has entered into agreements with developers for the construction of water, wastewater and drainage facilities within its boundaries and to enable connection with City facilities. Under these agreements, the developers have agreed to finance the construction of such facilities; the District agreed to make all reasonable efforts to obtain approval from the Texas Natural Resources Conservation Commission for the sale of bonds and to reimburse the developers all construction costs permitted under the rules of the Texas Natural Resources Conservation Commission when the approved bonds are sold. As of September 30, 1994, unreimbursed construction costs of approximately \$3.3 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; a bond issue is contemplated during summer 1995.

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 semiannual 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.

In a prior year, the District filed a suit against a construction contractor, engineer, and manufacturer relating to a wastewater lift station which was determined to be defective. In December 1991, the District obtained a judgment against the various parties. In fiscal year 1992, the District received \$50,000 less attorney's fees in full settlement of the judgment against the manufacturer. The court also entered judgments against the engineer, contractor and contractor's surety company in amounts of \$491,875, \$782,446 and \$2,338,207 respectively. Recovery against the engineer and contractor is unlikely due to their respective financial conditions. An appeal to the Texas Supreme Court is currently pending as to the surety company portion of the judgment. Since the final judgment has not been determined, no amount has been recorded in the accompanying financial statements.

Also during a prior year, the District received a contribution of \$500,000 from a developer, which was deposited into the Debt Service Fund. The contribution was made to facilitate issuance of the Series 1993 unlimited tax and revenue bonds. Under the agreement with the developer, the District is obligated to repay this contribution only in the event that it receives funds from the judgment against the surety company referred to above. Proceeds of the lawsuit shall first be used to pay attorney's fees and costs related thereto, to repair, replace or reconstruct the defective wastewater lift station and finally to reimburse the developer for the contribution with any amount remaining in an amount not to exceed \$500,000. As the final judgment of the litigation has not yet been determined, no liability for this amount has been recorded in the financial statements.

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## **APPENDIX D**

The information contained in this Appendix consists of a specimen municipal bond guaranty insurance policy and balance sheet of Capital Guaranty Insurance Company.

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CAPITAL GUARANTY INSURANCE COMPANY  
MUNICIPAL BOND GUARANTY INSURANCE POLICY

IN THE EVENT CAPITAL GUARANTY INSURANCE COMPANY IS UNABLE TO FULFILL ITS CONTRACTUAL OBLIGATION UNDER THIS POLICY OR CONTRACT OR APPLICATION OR CERTIFICATE OR EVIDENCE OF COVERAGE, THE POLICYHOLDER OR CERTIFICATEHOLDER IS NOT PROTECTED BY AN INSURANCE GUARANTY FUND OR OTHER SOLVENCY PROTECTION ARRANGEMENT.

Policy No:

Capital Guaranty Insurance Company ("Capital Guaranty") in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described Obligations, the full and complete payment required to be made by or on behalf of the Issuer to: \_\_\_\_\_ or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) 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 hereby 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 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. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligation" shall mean:

ISSUER:

ISSUE:

GUARANTIED MATURITIES:

DATED DATE:

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 the Claims Officer or its designee from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, Capital Guaranty 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 its Disbursing Agent or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by Capital Guaranty and appropriate instruments to effect the appointment of Capital Guaranty as agent for such owners of the Obligations in any legal proceeding relating to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to Capital Guaranty, Capital Guaranty shall cause its Disbursing Agent to disburse to such owners or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

As used herein, the term "Disbursing Agent" means a bank or trust company selected by Capital Guaranty or a successor Disbursing Agent, designated to receive and remit funds on behalf of Capital Guaranty.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

Any service of process on Capital Guaranty may be made to the Secretary, Capital Guaranty Insurance Company, One Market, Steuart Tower, 22nd Floor, San Francisco, California 94105-1413 and such service of process shall be valid and binding.

In Witness Whereof, Capital Guaranty has caused this policy to be  
executed by its \_\_\_\_\_ and \_\_\_\_\_ as of the \_\_\_\_\_ day  
of \_\_\_\_\_, 19\_\_.

CAPITAL GUARANTY INSURANCE COMPANY

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

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

Effective Date: \_\_\_\_\_

Resident Agent Countersignature

Agency: \_\_\_\_\_  
Address: \_\_\_\_\_

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

Date: \_\_\_\_\_

TX9-BS

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**CAPITAL GUARANTY INSURANCE COMPANY**

**BALANCE SHEET**

**(Statutory Basis)**

**March 31, 1995**

**ASSETS**

Cash	\$ 77,807
Investments	304,045,849
Premiums Receivable	967,667
Accrued Interest	3,821,506
Other Assets	<u>630,105</u>
Total Assets	\$ <u>309,542,934</u>

**LIABILITIES AND POLICYHOLDERS' SURPLUS**

Contingency Reserve	\$ 29,580,139
Unearned Premiums	106,230,469
Other Liabilities	2,771,029
Policyholders' Surplus	<u>170,961,297</u>
Total Liabilities and Policyholders' Surplus	\$ <u>309,542,934</u>



**RAUSCHER PIERCE REFSNES, INC.**

**Financial Advisor**