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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, 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the management of the District. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, 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.

Government Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The District has included such disclosures in Note I. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the District's disclosures with respect to the year 2000 issue made in Note I. Further, we do not provide assurance that the District is or will be year 2000 ready, that the year 2000 remediation efforts will be successful in whole or in part, or that parties with which the District does business will be year 2000 ready.

In our opinion , except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 1998, 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 the 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 stated in all material respects in relation to the general purpose financial statements taken as a whole.

Forshee Long & Co LLP

Austin, Texas
November 9, 1998

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
COMBINED BALANCE SHEET - ALL GOVERNMENTAL FUND TYPES AND ACCOUNT GROUPS
SEPTEMBER 30, 1998

ASSETS	Governmental Fund Types				Account Groups			Totals	
	Debt		Capital		General		Long-Term	(Memorandum Only)	
	General	Service	Projects	Assets	Fixed	Debt			
Cash	\$ 82,416	\$ 43	\$ 1,282	\$ -	\$ -	\$ -	\$ -	\$ 83,741	\$ 142,896
Temporary investments	552,647	1,932,285	308,648	-	-	-	-	2,793,580	2,799,361
Due from other funds	12,781	-	14,164	-	-	-	-	26,945	32,799
Accounts Receivable									
Service Accounts	221,649	-	-	-	-	-	-	221,649	221,911
Accrued interest	-	-	31,506	-	-	-	-	31,506	65,418
Delinquent taxes	4,366	23,963	-	-	-	-	-	28,329	29,947
Other	14,906	-	-	-	-	-	-	14,906	16,458
Allowance for uncollectible accounts	(1,671)	-	-	-	-	-	-	(1,671)	(1,671)
Restricted investments	-	-	3,846,949	-	-	-	-	3,846,949	3,644,735
Organization costs	-	-	-	1,045,165	-	-	-	1,045,165	1,045,165
General fixed assets	-	-	-	14,450,635	-	-	-	14,450,635	14,011,956
Amount available for retirement of general long-term debt	-	-	-	-	-	1,919,547	-	1,919,547	1,816,219
Amount to be provided for retirement of general long-term debt	-	-	-	-	-	13,700,213	-	13,700,213	15,013,041
TOTAL	\$ 887,094	\$ 1,956,291	\$ 4,202,549	\$ 15,495,800	\$ 15,619,760	\$ 15,619,760	\$ 38,161,494	\$ 38,838,235	\$ 38,838,235

LIABILITIES AND FUND EQUITY

LIABILITIES:									
Accounts payable and accrued expenditures	\$ 217,914	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 217,914	\$ 244,352	
Due to other funds	14,164	12,781	-	-	-	-	26,945	32,799	
Refundable deposits	130,267	-	-	-	-	-	130,267	123,442	
Deferred revenue	4,366	23,963	-	-	-	-	28,329	29,947	
Bonds payable	-	-	-	-	-	1,289,940	1,289,940	1,209,500	
Bonds payable - noncurrent	-	-	-	-	-	14,329,820	14,329,820	15,619,760	
Total liabilities	366,711	36,744	-	-	-	15,619,760	16,023,215	17,259,800	
FUND EQUITY:									
Investment in general fixed assets	-	-	-	15,495,800	-	-	15,495,800	15,057,121	
Fund balances:									
Unreserved	520,383	1,919,547	-	-	-	-	520,383	398,472	
Reserved for debt service	-	-	-	-	-	-	1,919,547	1,816,219	
Reserved for authorized construction	-	-	4,202,549	-	-	-	4,202,549	4,306,623	
Total fund equity	520,383	1,919,547	4,202,549	15,495,800	-	-	22,138,279	21,578,435	
TOTAL	\$ 887,094	\$ 1,956,291	\$ 4,202,549	\$ 15,495,800	\$ 15,619,760	\$ 15,619,760	\$ 38,161,494	\$ 38,838,235	

The accompanying notes are an integral part of these 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, 1998

	Governmental Fund Types			Totals (Memorandum Only)	
	General	Debt Service	Capital Projects	1998	1997
REVENUES.					
Utilities					
Water and sewer service	\$ 1,427,679	\$ -	\$ -	\$ 1,427,679	\$ 1,181,271
Water and sewer tap connection fees	91,850	-	-	91,850	37,600
Application fees	46,385	-	-	46,385	39,482
Solid waste disposal	225,016	-	-	225,016	218,814
Property taxes	382,681	2,009,428	-	2,392,109	2,266,781
Pool and park fees	68,319	-	-	68,319	60,580
Interest and other	127,337	147,623	215,493	490,453	461,302
Total revenues	<u>2,369,267</u>	<u>2,157,051</u>	<u>215,493</u>	<u>4,741,811</u>	<u>4,265,830</u>
EXPENDITURES.					
Current:					
Utilities:					
Purchased water and sewer service	1,152,277	-	-	1,152,277	1,177,201
Repairs and maintenance	23,485	-	-	23,485	42,570
Electric utilities	28,534	-	-	28,534	28,180
Water and sewer tap connection charges	13,212	-	-	13,212	4,975
Solid waste disposal	206,950	-	-	206,950	201,576
Professional services	117,371	-	-	117,371	116,191
Service accounts collection	213,500	-	-	213,500	208,851
Pool management fee and other pool and park costs	322,547	-	-	322,547	288,696
Tax assessment and collection	5,427	28,491	-	33,918	40,319
Insurance	4,013	-	-	4,013	6,524
Miscellaneous	48,175	-	241	48,416	46,242
Tax refund - State Farm	-	-	-	-	165,597
Capital Outlay	111,865	-	319,326	431,191	210,472
Debt Service:					
Interest and fiscal charges	-	815,732	-	815,732	870,922
Principal payments	-	1,209,500	-	1,209,500	1,137,100
Total expenditures	<u>2,247,356</u>	<u>2,053,723</u>	<u>319,567</u>	<u>4,620,646</u>	<u>4,545,416</u>
OTHER FINANCING SOURCES (USES):					
Interfund transfers	-	-	-	-	-
EXCESS (DEFICIT) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING (USES)					
	121,911	103,328	(104,074)	121,165	(279,586)
FUND BALANCES:					
Beginning of year	<u>398,472</u>	<u>1,816,219</u>	<u>4,306,623</u>	<u>6,521,314</u>	<u>6,800,900</u>
End of year	<u>\$ 520,383</u>	<u>\$ 1,919,547</u>	<u>\$ 4,202,549</u>	<u>\$ 6,642,479</u>	<u>\$ 6,521,314</u>

The accompanying notes are an integral part of these 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, 1998

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Utilities			
Water and sewer service	\$ 1,322,000	\$ 1,427,679	\$ 105,679
Water and sewer tap connection fees	80,000	91,850	11,850
Application fees	30,000	46,385	16,385
Solid waste disposal	226,000	225,016	(984)
Property taxes	382,000	382,681	681
Pool and park fees	60,000	68,319	8,319
Interest on investments	50,000	33,694	(16,306)
Miscellaneous	168,500	93,643	(74,857)
Total revenues	<u>2,318,500</u>	<u>2,369,267</u>	<u>50,767</u>
EXPENDITURES:			
Current			
Utilities:			
Purchased water and sewer service	1,194,000	1,152,277	41,723
Repairs and maintenance	20,000	23,485	(3,485)
Electric utilities	30,000	28,534	1,466
Water and sewer tap connection charges	19,000	13,212	5,788
Solid waste disposal	212,000	206,950	5,050
Directors' fees	10,000	11,350	(1,350)
Legal fees - general	60,000	49,450	10,550
Engineering fees	33,000	42,821	(9,821)
Management services	216,000	213,500	2,500
Auditing fees	11,000	13,750	(2,750)
Park maintenance	107,000	173,237	(66,237)
Park improvements	1,500	6,708	(5,208)
Pool management	85,000	83,710	1,290
Pool maintenance	32,500	58,892	(26,392)
Tax assessment and collection	6,000	5,427	573
Insurance	7,000	4,013	2,987
Miscellaneous	88,000	48,175	39,825
Contingency	11,500	-	11,500
Capital outlay	175,000	111,865	63,135
Total expenditures	<u>2,318,500</u>	<u>2,247,356</u>	<u>71,144</u>
OTHER FINANCING SOURCES (USES) -			
Interfund transfers	-	-	-
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	-	121,911	121,911
FUND BALANCE:			
Beginning of year	398,472	398,472	-
End of year	<u>\$ 398,472</u>	<u>\$ 520,383</u>	<u>\$ 121,911</u>

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

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 1998

NOTE A - 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 59 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 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.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Fund 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 periodically amended by the Board of Directors and unexpended appropriations lapse at year end.

General Fixed Assets - General fixed assets, including infrastructure assets, are stated at the historical cost of assets 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.

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 on principal and interest relating to the general obligation bonds are recorded as expenditures in the Debt Service Fund

Fund Balances - Designated fund balance 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.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Memorandum Totals - Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are present 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.

NOTE B - 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. All deposits are in a single institution and are carried at cost plus accrued interest. At September, 30, 1998, such deposits were entirely covered by Federal Deposit Insurance Corporation ("FDIC") insurance or secured by collateral pledged by the depository.

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.

Based on these levels of risk, all of the District's deposits are classified as Category 1.

The District is entitled to invest in obligations of the United States, the State of Texas, their agencies and any corporation of the United States government, certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution within the State, repurchase agreements with a defined termination date, bankers' acceptances with a stated maturity of 270 days or less, no-load money market mutual funds regulated by the United States Securities and Exchange Commission, securities issued by a state or local government, or any instrumentality or agency in the United States and eligible public funds investment pools. Temporary investments are recorded at cost and the District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE B - CASH AND TEMPORARY INVESTMENTS - Continued

Similar to cash deposits, investment 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 and 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.

At September 30, 1998, the District held investments in United States treasury notes deemed to be Category 1 in accordance with Governmental Accounting Standards Board Statements No. 3 ("GASB 3"). The District also had temporary investments in TexPool, an investment service offered to local governments by the State Treasury government investment pool and Fidelity Funds. In accordance with GASB 3, the investments in TexPool and Fidelity Funds are not categorized in the three risk categories because these investments are in a pool of funds and therefore not evidenced by securities that exist in physical or book entry form.

	General Fund		Debt Service Fund		Capital Projects Fund	
	Carrying Amount	Market Value	Carrying Amount	Market Value	Carrying Amount	Market Value
Categorized Amounts: (All Category 1)						
U.S. Treasury Notes	\$ -	\$ -	\$ -	\$ -	\$ 3,748,838	\$ 3,764,700
Total	-	-	-	-	3,748,838	3,764,700
Investment in TexPool	552,647	552,647	1,932,285	1,932,285	308,648	308,648
Fidelity Funds	-	-	-	-	98,111	98,111
Totals	<u>\$ 552,647</u>	<u>\$ 552,647</u>	<u>\$ 1,932,285</u>	<u>\$ 1,932,285</u>	<u>\$ 4,155,597</u>	<u>\$ 4,171,459</u>

The investments in U.S. Treasury Notes and Fidelity Funds in the Capital Projects Fund represent the remaining proceeds and related interest revenue from the Contract Revenue Bonds. These investments are reflected as restricted investments in the general purpose financial statements.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE C - 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 17, 1997, the District levied a combined tax rate of \$0.75 per \$100 assessed valuation to finance the operating expenditures and debt service requirements of the District. The operations and maintenance tax rate and the debt service tax rate were \$0.12 and \$0.63, respectively. The total 1997 tax levy was \$2,373,990 based on a taxable valuation of \$318,753,910.

NOTE D - GENERAL FIXED ASSETS

A summary of changes in general fixed assets and organization costs for the year ended September 30, 1998, follows:

	Balance October 1, 1997	Additions	Transfers and (Retirements)	Balance September 30, 1998
Water, sewer, and drainage facilities	\$ 10,874,661	\$ 44,894	\$ -	\$ 10,919,555
Park	1,795,608	119,354	-	1,914,962
Engineering fees	1,090,554	129,874	-	1,220,428
City fees	251,133	144,557	-	395,690
Organization costs	1,045,165	-	-	1,045,165
Total	<u>\$ 15,057,121</u>	<u>\$ 438,679</u>	<u>\$ -</u>	<u>\$ 15,495,800</u>

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE E - GENERAL LONG-TERM DEBT

Following is a summary of general long-term debt transactions for the year ended September 30, 1998:

	Balance October 1, 1997	Retirements	Balance September 30, 1998
Contract Revenue Bonds	\$ 5,479,260	\$ (304,500)	\$ 5,174,760
Unlimited Tax and Revenue Bonds	<u>11,350,000</u>	<u>(905,000)</u>	<u>10,445,000</u>
Total	<u>\$ 16,829,260</u>	<u>\$(1,209,500)</u>	<u>\$ 15,619,760</u>

Series	Description	Matures Through	Interest Rates %	Balance September 30, 1998
1993	Unlimited Tax and Revenue Refunding Bonds	2012	4.90 - 7.40	\$ 2,800,000
1993A	Unlimited Tax and Revenue Refunding Bonds	2006	2.70 - 4.90	3,655,000
1994	City of Austin, Texas Contract Revenue and Refunding Bonds	2010	3.50 - 5.00	5,174,760
1995	Unlimited Tax and Revenue Bonds	2015	5.00 - 7.00	<u>3,990,000</u>
Total				<u>\$ 15,619,760</u>

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

Fiscal Year	Principal	Interest	Total
1999	\$ 1,289,940	\$ 768,907	\$ 2,058,847
2000	1,338,640	709,521	2,048,161
2001	1,421,480	646,088	2,067,568
2002	777,140	1,265,373	2,042,513
2003	823,240	1,239,372	2,062,612
Thereafter	<u>9,969,320</u>	<u>3,554,788</u>	<u>13,524,108</u>
Total	<u>\$ 15,619,760</u>	<u>\$ 8,184,049</u>	<u>\$ 23,803,809</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%). Bonds payable and debt service expenditures as reflected in the general purpose financial statements represent only the District's share of such payments.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE E - GENERAL LONG-TERM DEBT - Continued

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

In prior years, the District defeased certain outstanding general obligation bonds throughout the 1985, 1989, 1993A, and 1994 Bond Series by placing the proceeds of the new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. As a result, the bonds are considered to be defeased and the related liability has been removed from the general long-term debt account group. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. As September 30, 1998, outstanding bonds of \$14,790,000 are considered defeased.

The Series 1995 Unlimited Tax and Revenue Bonds are subject to redemption in whole or in part, on or after August 1, 2005 at par value

At September 30, 1998, the District had \$58,175,000 of unlimited tax and revenue bonds, authorized by the voters of the District, but unissued.

NOTE F - COMMITMENTS AND CONTINGENT LIABILITIES

The District has a contract 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

NOTE G - RISK MANAGEMENT

The District's risk management program includes coverages through third party insurance providers for automobile liability, director and officer liability, pollution liability, property, boiler and machinery, and commercial umbrella and comprehensive general liability. These risks are covered by commercial insurance purchased from independent third parties and through the Texas Municipal League ("TML") Intergovernmental Risk Pool, a public entity risk pool for the benefit of governmental units located within the state. TML Intergovernmental Risk Pool is considered a self sustaining risk pool that will provide coverage for its members. Settled claims have not exceeded insurance coverage limits for the past three years.

NOTE H - ANNEXATION DISCUSSION

The City Council of the City of Austin has had ongoing discussions regarding annexing various municipal utility districts. The Council has already voted to annex certain districts. As of this date there are no agreements as to if or when the City might annex the District. The District expects to begin discussions with the City of Austin during the fiscal year ending September 30, 1999 which may lead to a Strategic Partnership Agreement which would set forth specific plans for any subsequent annexation.

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED SEPTEMBER 30, 1998

NOTE I - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the District's operations as early as 1999.

Normal operations of the District require the use of computer systems and other electronic equipment that is dependent on microchip technology. Vendors, who provide critical services to the District, also rely on such systems. North Austin Municipal Utility District No. 1's management is aware of the Year 2000 issues and has begun the process of identifying critical systems, components and vendors. The District's management fully expects to complete the assessment, remediation and validation stages of the process well in advance of the Year 2000. However, because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the District is or will be Year 2000 ready, that the District's remediation efforts will be successful in whole or in part, or that parties with whom the District does business will be Year 2000 ready. Costs associated with the process to date have been nominal. Management does not anticipate that costs to complete the remaining stages will be significant.

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APPENDIX B

Form of Opinion of Bond Counsel.

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LAW OFFICES

MCCALL, PARKHURST & HORTON L.L.P.

717 NORTH HARWOOD
NINTH FLOOR
DALLAS, TEXAS 75201-6587
TELEPHONE 214 754-9200
TELECOPY 214 754-9250

600 CONGRESS AVENUE
1250 ONE AMERICAN CENTER
AUSTIN, TEXAS 78701-3248
TELEPHONE 512 478-3805
TELECOPY 512 478-0897

700 N. ST. MARY'S STREET
1225 ONE RIVERWALK PLACE
SAN ANTONIO, TEXAS 78205-3503
TELEPHONE 210 225-2800
TELECOPY 210 225-4550

[DRAFT FORM OF OPINION]

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX AND REVENUE BONDS, SERIES 1999
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,350,000**

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 January 20, 1999, 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 imposed on corporations by Section 55 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

Specimen Municipal Bond Insurance Policy

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**FINANCIAL
SECURITY
ASSURANCE®**

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No. -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC ("Financial Security"), for consideration received hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal or interest on the Bond and shall be fully subrogated to the rights of the Owner including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

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Page 2 of 2
Policy No. -N

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both, and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

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COASTAL SECURITIES

Financial Advisor to the System

OFFICIAL STATEMENT

Dated July 31, 2003

NEW ISSUE - BOOK-ENTRY ONLY

Ratings: Moody's Investors Service, Inc.: "Aaa"
(See "RATING" and "FINANCIAL GUARANTY INSURANCE" herein)

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

\$4,510,000

**NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1
CITY OF AUSTIN, TEXAS CONTRACT REVENUE REFUNDING BONDS,
SERIES 2003**

Dated: August 1, 2003

Due: November 15, as shown on inside cover

Interest on the Bonds will accrue from the dated date as shown above and will be payable November 15 and May 15 of each year, commencing November 15, 2003, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The \$4,510,000 North Austin Municipal Utility District No. 1 City of Austin, Texas Contract Revenue Refunding Bonds, Series 2003 (the "Bonds") are being issued by the North Austin Municipal Utility District No. 1 (the "Issuer" or "District"), a political subdivision of the State of Texas located within Travis and Williamson Counties, Texas, pursuant to Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including, particularly, Chapters 49 and 54 of the Texas Water Code, as amended and Chapter 1207, Texas Government Code, as amended; and the Bond Order (the "Bond Order") adopted by the Board of Directors (the "Board") of the District. (See "PLAN OF FINANCING - Authority for Issuance" herein.) The definitive Bonds will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry-only form. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrant for the Bonds is JPMorgan Chase Bank, Dallas, Texas (the "Paying Agent/Registrar"). The Bonds will be issued only in fully registered form. The Bonds will be issued in the denomination of \$5,000 of principal amount or integral multiples thereof.

Proceeds from the sale of the Bonds, together with a cash contribution, will be used to refund a portion of the District's outstanding City of Austin, Texas Contract Revenue Refunding Bonds, Series 1994 and to pay the costs of issuing the Bonds. The unrefunded portion of such Series 1994 Bonds (the "Parity Bonds") will be secured and payable on a parity with the Bonds. See "PLAN OF FINANCING."

The Bonds, together with the Parity Bonds, are special obligations of the District payable from and secured by a first lien on and pledge of payments ("City Contract Payments") required to be made by the

CITY OF AUSTIN, TEXAS

under a Utility Construction Contract between the District and the City of Austin, Texas ("Austin" or "City"), as amended (the "Utility Construction Contract") originally executed on February 21, 1984 to pay the costs of certain water and wastewater improvements (the "Contract Facilities"). To secure payment of the City Contract Payments the City pledges the "Net Revenues" of its "Waterworks and Sewer System" in amounts sufficient to pay principal of and interest on the Bonds and Parity Bonds when due, subject only to the lien on and pledge of such Net Revenues securing the "Prior Lien Bonds" heretofore or hereafter issued by the City (as such terms are defined herein). The District has agreed to pay the City a pro rata share of the cost of the Contract Facilities based upon the capacity reserved to the District, which is currently estimated at 34.81% of debt service on the Bonds and Parity Bonds. See "SECURITY FOR THE BONDS - Pledge under the Bond Documents."

THE BONDS DO NOT CONSTITUTE OR CREATE A DEBT OR LIABILITY OF THE STATE OF TEXAS, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY OF AUSTIN, THE DISTRICT OR ANY OTHER POLITICAL SUBDIVISION IS IN ANY MANNER PLEDGED, GIVEN OR LOANED TO THE PAYMENT OF THE BONDS, AND THE REGISTERED OWNERS OF THE BONDS DO NOT HAVE THE RIGHT TO DEMAND PAYMENT OF THE BONDS OUT OF ANY FUNDS OR SOURCES WHATSOEVER OTHER THAN THE PLEDGED REVENUES. See "SECURITY FOR THE BONDS" herein.

Ambac

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE."

SEE INSIDE COVER FOR STATED MATURITIES,
PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered for delivery, when, as and if issued by the District and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their Counsel, Andrews & Kurth L.L.P. It is expected that the Bonds will be available for delivery through the services of the DTC on or about August 28, 2003.

SOUTHWEST SECURITIES

FIRST SOUTHWEST COMPANY

P-NA01273

725

STATED MATURITY SCHEDULE⁽¹⁾
(Due November 15)

Stated Maturity	Principal Amount	Rate (%)	Initial Yield (%)	CUSIP Numbers ⁽²⁾
2004	\$660,000	2.00	1.10	657428CJ5
2005	685,000	2.00	1.55	657428CK2
2006	720,000	3.00	2.08	657428CL0
2007	750,000	3.00	2.59	657428CM8
2008	780,000	3.00	2.97	657428CN6
2009	915,000	3.25	3.32	657428CP1

⁽¹⁾ The Bonds are not subject to optional redemption prior to their stated maturity.

⁽²⁾ CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau for the convenience of the owners of the Bonds. Neither the District nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

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NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1

Board of Directors

Name	Years Served	Term Expires (May)	Primary Occupation
Terry Ripperda President	10	2004	Home Mortgage Company Executive
Alan McNeil Vice-President	8	2006	Computer Company Finance Manager
Don Conklin Treasurer	5	2006	Optical Equipment Design Executive
Chuck Simms Secretary	6	2004	Consultant
Keith Collins Assistant Secretary/Treasurer	4	2004	Engineer

CITY OF AUSTIN, TEXAS

Elected Officials:

Name	Position	Term Expires (June 15)
Will Wynn	Mayor	2006
Jackie Goodman	Mayor Pro-Tem, Councilmember, Place 3	2005
Daryl Slusher	Councilmember, Place 1	2005
Raul Alvarez	Councilmember, Place 2	2006
Betty Dunkerley	Councilmember, Place 4	2005
Brewster McCracken	Councilmember, Place 5	2006
Danny Thomas	Councilmember, Place 6	2006

Appointed Officials:

Name	Position
Toby Hammett Futrell	City Manager
Lisa Gordon	Assistant City Manager
Laura Huffman	Assistant City Manager
John Stephens	Acting Assistant City Manager
Sedora Jefferson	City Attorney
Vickie Schubert	Acting Director of Financial Services
Shirley Brown	City Clerk

DISTRICT CONSULTANTS AND ADVISORS:

Operator/General Manager	Eco Resources, Inc. Austin, Texas
General Counsel	Armbrust & Brown, L.L.P. Austin, Texas
Tax Assessor/Collector	Deborah M. Hunt, CTA Williamson County
Bond Counsel	McCall, Parkhurst & Horton L.L.P. Austin, Texas
Engineers	Murfee Engineering Company, Inc. Austin, Texas
Financial Advisor	Coastal Securities San Antonio, Texas

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances shall this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

No dealer, broker, salesman, or other person has been authorized by the Issuer to give any information or to make any representation with respect to the Bonds, other than as contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Issuer. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE DISTRICT MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

All of the summaries of the statutes, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Coastal Securities, the Issuer's Financial Advisor (the "Financial Advisor"), 600 Navarro, Suite 350, San Antonio, Texas 78205.

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OFFICIAL STATEMENT

Relating to

\$4,510,000

NORTH AUSTIN MUNICIPAL UTILITY DISTRICT NO. 1 City of Austin, Texas Contract Revenue Refunding Bonds, Series 2003

INTRODUCTION

The purpose of this Official Statement, which includes the cover page and appendices hereto, is to set forth information concerning the North Austin Municipal Utility District No. 1 (the "District" or "Issuer"), the City of Austin, Texas, (the "Austin" or "City") and \$4,510,000 aggregate principal amount of the District's City of Austin, Texas Contract Revenue Refunding Bonds, Series 2003 (the "Bonds"). Capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings assigned to them in the District's order (the "Bond Order"), adopted on May 21, 2003, authorizing the issuance of the Bonds.

The District, a municipal utility district created on November 15, 1983 by the Texas Water Commission (now the Texas Commission on Environmental Quality (the "TCEQ")), pursuant to Article XVI, Section 59 of the Texas Constitution, operates pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts.

This Official Statement includes descriptions of the plan and purpose of financing, the Bonds, the District, the Indenture, the Utility Construction Contract between the City and the District dated February 21, 1984, as amended (the "Utility Construction Contract"), information relating to the City's utility systems and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Coastal Securities.

PLAN OF FINANCING

Authority for Issuance

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and other applicable laws of the State of Texas and pursuant to the Bond Order and a Trust Indenture, dated as of November 1, 1985, as supplemented by a First Supplemental Trust Indenture dated as of July 1, 1989, a Second Supplemental Trust Indenture dated as of January 1, 1994, and a Third Supplemental Trust Indenture dated as of August 1, 2003, between the District and JPMorgan Chase Bank, as trustee (the "Trustee"). The Bond Order, Utility Construction Contract and Trust Indenture are sometimes referred to herein collectively as the "Bond Documents."

Purpose

The Bonds are being issued for the purpose of refunding a portion of the District's previously issued and outstanding City of Austin, Texas Contract Revenue Refunding Bonds, Series 1994 ("Series 1994 Bonds"), currently outstanding in the aggregate principal amount of \$9,840,000. The portion of the Series 1994 Bonds being refunded (the "Refunded Bonds") have a principal balance of \$8,670,000 and mature on November 15 in each of the years 2004 through 2009. See "Schedule I - Schedule of Refunded Bonds." The Series 1994 Bonds which are not being refunded and defeased and which will remain outstanding following the issuance of the Bonds are hereinafter referred to as the "Parity Bonds." The issuance of the Bonds will result in a present value debt service savings to the District and the City, as well as reduce annual debt service payments and overall debt service requirements. Proceeds of the Bonds will also be used to pay the costs of issuing the Bonds. The Bonds, which are issued as additional parity bonds under the Bond Documents, will be secured and payable on a parity with the Parity Bonds as described in greater detail below under "Security for the Bonds."

Escrow Agreement and Refunded Bonds

The Refunded Bonds and the interest due thereon are to be paid on the redemption date from funds to be deposited with JPMorgan Chase Bank, as escrow agent (the "Escrow Agent"). The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the "Escrow Agreement") dated as of August 1, 2003, but effective on the date of delivery of the Bonds (scheduled for August 28, 2003). The Bond Order provides that from a portion of the proceeds of the sale of the Bonds received from the Underwriters, together with the District contribution, the District will deposit with the Escrow Agent the cash and direct obligations of the United States necessary to accomplish the discharge and final payment of the Refunded Bonds on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund"). Grant Thornton LLP, independent certified public accountants, will verify that the cash and direct obligations in the Escrow Fund will mature and pay interest at the times and in the amounts that together with investments of the District will be sufficient to pay principal and interest on the Refunded Bonds. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of or interest on the Bonds.

Upon the deposit of the cash and investments with the Escrow Agent, pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds in accordance with law. It is the opinion of Bond Counsel that as a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the cash (or subsequent investments as described above) held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from the City Contract Payments, nor for the purpose of applying any limitation on the issuance of debt.

The Escrow Agreement will provide that timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of, premium, if any, and interest on the Refunded Bonds if for any reason the cash balances on deposit or scheduled to be on deposit in the Escrow Fund should be insufficient to make such payment shall be made in accordance with the Bond Order and the Utility Construction Contract.

SOURCES AND USES OF FUNDS

It is anticipated the proceeds from the sale of the Bonds will be applied as follows:

<i>Sources of Funds</i>	
Principal Amount of the Bonds	\$4,510,000.00
Cash Contribution	4,530,000.00
Accrued Interest	9,310.31
Net Premium	<u>43,950.80</u>
Total Sources of Funds	<u>\$9,093,261.11</u>

<i>Uses of Funds</i>	
Escrow Fund Deposit	\$8,864,920.92
Debt Service Fund Deposit	9,310.31
Costs of Issuance (including insurance premium)	187,085.68
Underwriters' Discount	<u>31,944.20</u>
Total Uses of Funds	<u>\$9,093,261.11</u>

DESCRIPTION OF THE BONDS

Principal Amount, Date, Interest Rates and Maturities

Interest on the Bonds accrues from August 1, 2003, or from the most recent date to which interest has been paid or duly provided for, and is payable semiannually on November 15 and May 15 of each year, commencing November 15, 2003. The Bonds will bear interest at the rates, and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds shall be computed on the basis of a 360-day year composed of twelve 30-day months. The Bonds are issuable in denominations of \$5,000 or any integral multiple thereof for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein. The principal and redemption price of the Bonds shall be payable, without exchange or collection

charges, in lawful money of the United States of America, to the respective registered owners thereof upon presentation and surrender thereof at maturity at the designated office of the JPMorgan Chase Bank, the initial paying agent/registrar ("Paying Agent/Registrar") in Dallas, Texas. Interest on the Bonds shall be payable by the Paying Agent/Registrar on each interest payment date, in lawful money of the United States of America, by check or draft dated as of such interest payment date, sent by United States mail, first-class postage prepaid, to the respective owners thereof, at the address of each such registered owner as it appears in the registration books on the record date preceding each such interest payment date. In addition, interest may be paid by such other method acceptable to the Paying Agent/Registrar requested by, at the risk and expense of, the respective registered owners of the Bonds.

Book-Entry-Only System

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

The District cannot and does not give any assurance the (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges in Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of

Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

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

Redemption proceeds, distributions and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as made by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Resolution will be given only to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Optional Redemption

The Bonds are not subject to optional redemption prior to their stated maturity.

Trustee; Paying Agent/Registrar

The initial Paying Agent/Registrar is JPMorgan Chase Bank, Dallas, Texas. In the Bond Order, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking institution, shall be an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and shall be authorized by law to serve as a Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Bonds,

the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

JPMorgan Chase Bank also serves as Trustee under the Trust Indenture. See "Summary of Selected Provisions of the Bond Documents - Summary of Trust Indenture."

Transfer, Exchange and Registration

In the event the book-entry-only system should be discontinued, the Bonds may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar at its designated office for payment in Dallas, Texas, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the principal corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be cancelled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Bond or Bonds surrendered for exchange or transfer. (See "Book-Entry-Only System" above for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.)

Mutilated, Destroyed, Lost, or Stolen Bonds

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. (See "Book-Entry-Only System" above for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.)

Record Date for Interest Payment

The record date ("Record Date") for the semiannual interest payable on any interest payment date is the last day of the month next preceding such interest payment date, as specified in the Bond Order. In the event of non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

SECURITY FOR THE BONDS

Pledge Under the Bond Documents

The Bonds, the Parity Bonds and any additional parity bonds issued in the future in accordance with the Bond Documents (the "Additional Bonds"), together with the interest thereon, are equally and ratably payable from and secured under the Trust Indenture by the District's grant of a first lien security interest in, and assignment and pledge of, all of its right, title and interest in and to (i) the Utility Construction Contract and all proceeds thereof, including the payments required to be made thereunder by the City (the "City Contract Payments") and (ii) the Debt Service Fund, confirmed under the Bond Order and the Trust Indenture.

The City has agreed under the Utility Construction Contract to make the City Contract Payments to the Trustee in the amounts and at the times necessary to pay the principal and redemption price of, and premium, if any, and interest on the Bonds, the Parity Bonds and any Additional Bonds when due, in accordance with the Bond Order and pay the fees and charges of the Trustee and other expenses incurred in connection with the Bonds, Parity Bonds and Additional Bonds.

Pursuant to the Utility Construction Contract, the District has agreed to pay the City a pro rata share of the cost of the Contract Facilities based upon the capacity reserved to the District which is currently estimated at 34.81%. The District's pro rata share is paid to the Trustee for deposit in the Debt Service Fund at least five business days prior to the principal and/or interest payment date on the Bonds, Parity Bonds and any Additional Bonds.

Security for the City Contract Payments

The City's obligation to make the City Contract Payments is a special obligation for which the City remains bound until the entire principal of, premium, if any, and interest on the Bonds, the Parity Bonds and any Additional Bonds have been paid or provided for. Under the Utility Construction Contract, the City has pledged the "Net Revenues" of its "Waterworks and Sewer System" (as such terms are hereinafter defined) to the payment and security of the City Contract Payments. The term "Waterworks and Sewer System" means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto, unless declared not to be part of such system in accordance with an ordinance of the City, adopted on March 3, 1982, (the "1982 City Ordinance"). The term "Net Revenues" means (i) all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits and restricted gifts and grants) of the Waterworks and Sewer System, including earnings and income derived from the investment or deposit of money in any special funds or accounts created and established by the City for the payment and security of bonds and obligations issued by the City and secured by such Net Revenues (collectively, the "Gross Revenues"), less (ii) all current expenses of operating and maintaining the Waterworks and Sewer System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service, and payments under contracts for the purchase of water supply or other materials, goods or services, but excluding depreciation (collectively, "Maintenance and Operating Expenses").

Prior Lien Bonds of the City The lien on Net Revenues of the Waterworks and Sewer System securing payment of the City Contract Payments is subordinate only to the lien thereon securing \$1,285,080,631 outstanding principal amount of City bonds referred to herein as "Prior Lien Bonds," which are secured not only by Net Revenues of the Waterworks and Sewer System but also by certain net revenues (also referred to herein as "Net Revenues") of the City's electric utility system referred to herein as the "Electric Light and Power System." The Net Revenues of the Electric Light and Power System are not pledged to the City Contract Payments or to the Bonds. The Waterworks and Sewer System and the Electric Light and Power System are sometimes referred to herein collectively as the "Systems." See Appendix A, Information Regarding the City's Utility Systems. The City has reserved the right under the Utility Construction Contract to issue additional Prior Lien Bonds. See "Issuance of Additional City Obligations" below.

Subordinate Lien Bonds of the City on Parity with the Bonds The City Contract Payments are secured by Net Revenues of the Waterworks and Sewer System on a parity with the following obligations of the City: (i) \$256,379,512 outstanding principal amount of City bonds and \$103,824,000 outstanding principal amount of City commercial paper notes, which bonds and notes are (a) referred to herein collectively as "Combined Lien Bonds" or "Subordinate Lien Bonds" and (b) secured not only by Net Revenues of the Waterworks and Sewer System but also by Net Revenues of the Electric Light and Power System; and (ii) \$673,955,000 outstanding principal amount of City bonds referred to herein as "Separate Lien Obligations," which bonds are secured only by Net Revenues of the Waterworks and Sewer System or Net Revenues. See Appendix A, Information Regarding the City's Utility Systems. The City has reserved the right under the Utility Construction Contract to issue additional Combined Lien Bonds and Separate Lien Obligations. See "Issuance of Additional City Obligations" below.

Issuance of Additional City Obligations The City has reserved the right under the Contract to issue additional Prior Lien Bonds, Combined Lien Bonds and Separate Lien Obligations, all of which obligations are either on a parity with or superior to the City Contract Payments. The following conditions are required to be satisfied before issuing additional Prior Lien Bonds or Combined Lien Bonds.

General The Director of Financial Services of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) shall have executed a certificate stating (i) that the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the Systems, either or both, have been made in full and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein.

Capital Improvements Prior to the issuance of additional Prior Lien Bonds or Combined Lien Bonds by the City for the purpose of enlarging, extending, improving or repairing then existing facilities of either or both Systems, a certificate or opinion of a certified public accountant is required to be obtained stating that, according to the books and records of the City, the Net Earnings (as defined below) for the preceding fiscal year or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance authorizing the Prior Lien Bonds or Combined Lien Bonds is adopted were at least equal to the sum of (i) 1.10 times the average annual requirement for the payment of principal and interest (or other similar payment) for the outstanding Combined Lien Bonds and all other outstanding obligations that are payable only from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer System, or both, other than Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Combined Lien Bonds, if any, then proposed and (ii) 1.25 times the average annual requirement for the payment of principal and interest (or other similar payment) for all outstanding Prior Lien Bonds and Separate Lien Obligations, after giving effect to the Prior Lien Bonds, if any, then proposed. In making a determination of the Net Earnings, such accountant may take into consideration a change in the rates and charges for services and facilities afforded by either the Electric Light And Power System or the Waterworks and Sewer System, or both, that became effective at least 60 days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the accountant's certificate or opinion. The term "Net Earnings" has the same meaning as the Net Revenues of both Systems, except that expenses which constitute capital expenditures under standard accounting practice are not deducted in the calculation thereof.

Capital Additions Prior to the issuance of Prior Lien Bonds and Combined Lien Bonds for properties and facilities which by their nature, and as incorporated into either or both of the Systems, will add additional capacity, or are to replace existing capacity, of either or both of the Systems, or substantially increase revenue-producing capabilities (a "Capital Addition"), a certificate of an independent engineer shall be obtained to the effect that, based on a report prepared by such independent engineer relating to such Capital Addition and the Systems, the projected Net Earnings for each of the five fiscal years subsequent to the date the Capital Addition is estimated to become commercially operative will be equal to at least the sum of (i) 1.25 times the average annual requirements for the payment of the principal and interest (or other similar payments) for Prior Lien Bonds and Separate Lien Obligations then outstanding or incurred and all Prior Lien Bonds estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements which will constitute enlargements, extensions, betterments or repairs to the then existing facilities or properties of either or both of the Systems and for all Capital Additions then in progress or then being initiated and (ii) 1.10 times the average annual requirements for the payment of principal and interest (or similar payments) for Combined Lien Bonds and all other obligations, other than Prior Lien Bonds or Separate Lien Obligations, payable solely from the Net Revenues of either or both of the Systems, which are then outstanding or incurred and all Combined Lien Bonds or such other obligations estimated to be issued, if any, during the period through the fifth fiscal year subsequent to the date the Capital Addition is estimated to become commercially operative, for property improvements or any combination of property improvements which will constitute enlargements, extensions, betterments or repairs to the then existing facilities or properties of either or both of the Systems and for all Capital Additions then in progress or then being initiated.

Once a Capital Addition has been initiated by obtaining such certificate of an independent engineer and the Prior Lien Bonds or Combined Lien Bonds are delivered therefore, the City reserves the right to issue additional Prior Lien Bonds and Combined Lien Bonds, as the case may be, in such amounts as may be necessary to complete the acquisition and construction thereof and make the same commercially operative; provided that the City make a forecast for a period

extending five years beyond the estimated commercial operation date of the Capital Addition demonstrating the ability of the Systems to pay all obligations payable from Net Revenues of either the Electric Light and Power System or the Waterworks and Sewer System, or both, to be outstanding after the issuance of the additional Prior Lien Bonds or Combined Lien Bonds then being issued and have the reasonableness of such forecast confirmed by an independent engineer.

Refunding Bonds The City reserves the right to issue refunding bonds to refund all or any part of the outstanding Prior Lien Bonds or the Combined Lien Bonds (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City or its inhabitants, and if less than all such outstanding Prior Lien Bonds or Combined Lien Bonds are refunded, the conditions precedent prescribed for the issuance of Prior Lien Bonds or Combined Lien Bonds set forth above under "General" and under "Capital Improvements" shall be satisfied and the accountant's certificate or opinion required shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the Prior Lien Bonds or the Combined Lien Bonds being refunded following their cancellation or provision being made for their payment).

City Rate Covenants The City has agreed under the Utility Construction Contract to establish rates and charges for the facilities and services of its Electric Light and Power System and its Waterworks and Sewer System to provide gross revenues in each fiscal year sufficient to (i) pay the respective maintenance and operation expenses of the Systems, (ii) provide such amounts as are necessary to establish, maintain or restore, as the case may be, required balances in the reserve or contingency funds created for the payment of and security for Prior Lien Bonds, Combined Lien Bonds, Separate Lien Obligations (including the City Contract Payments) plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Combined Lien Bonds and all other indebtedness, except Prior Lien Bonds and Separate Lien Obligations, payable solely from and secured solely by a lien on and pledge of the Net Revenues of either the Electric Power and Light System or the Waterworks and Sewer System, or both.

The Utility Construction Contract additionally provides that the City shall establish and maintain rates and charges for water and wastewater services that will annually produce Net Revenues of the Waterworks and Sewer System at least equal to 1.25 times the combined annual payments to be made during a fiscal year on all Separate Lien Obligations (including the City Contract Payments) of the Waterworks and Sewer System for purposes of paying or representing the payment of principal of and interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations (the "City Contract Rate Covenant"). For purposes of computing the anticipated Net Revenues of the Waterworks and Sewer System in determining compliance with the City Contract Rate Covenant, the Gross Revenues of the Waterworks and Sewer System will be increased by the anticipated amount of the "District Available Revenues" which is defined as the amounts provided in the District's budget each year for the payment of the District's Pro Rata Share (as hereinafter defined) with respect to the Bonds, the Parity Bonds and any Additional Bonds. See "SUMMARY OF SELECTED PROVISIONS OF THE BOND DOCUMENTS - SUMMARY OF UTILITY CONSTRUCTION CONTRACT - Pro Rata Share of the District" below.

Flow of Funds All money received by the Trustee for the payment of the Bonds, the Parity Bonds and any Additional Bonds will be deposited into the separate funds created or confirmed under the Bond Order and the Trust Indenture, all as set forth below.

Debt Service Fund The Debt Service Fund is required to be held in trust by the Trustee in accordance with the Trust Indenture for the benefit of the owners of the Bonds, the Parity Bonds and any Additional Bonds. On or before the last business day prior to each interest payment date, principal payment date or optional redemption date, the City is required to deposit into the Debt Service Fund such amount which, together with any amount then on deposit, including the District's Pro Rata Share of any corresponding amount, will be sufficient to make such interest payment and principal payment or to pay such redemption price. In the event the City should fail to make any of its required payments into the Debt Service Funds, such required payment will continue as an obligation of the City until fully paid. The Debt Service Fund will be used by the Trustee only to pay the principal of, redemption premium, if any, and interest on the Bonds, the Parity Bonds, and any Additional Bonds.

Additional Bonds of the District

The District has reserved the right, upon the request of the City, to issue Additional Bonds for the purpose of financing the cost of purchasing, constructing, acquiring, owning, operating, repairing, improving or extending certain water main and sanitary sewer main extensions and improvements described in the Utility Construction Contract (the "Contract Facilities") or refunding any outstanding Bonds, Parity Bonds or Additional Bonds. When issued and delivered, such Additional Bonds will be (i) payable from the Debt Service Funds (ii) payable from and secured by a first lien on and pledge of City Contract Payments and (iii) secured by the Trust Indenture, in the same manner and to the same extent as, and be on a parity with, all then outstanding Bonds, Parity Bonds and Additional Bonds. It is provided in the Bond Order, however, that no series or issue of Additional Bonds will be issued unless the following conditions are satisfied:

- (1) A certificate is executed by the Director of Financial Services of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) stating (a) that the City is not then in default as to any covenant, obligation or agreement contained in the Utility Construction Contract or in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of either or both of its Systems and (b) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of such Net Revenues have been made in full and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;
- (2) A certificate is executed by the President and Secretary of the Board of Directors of the District to the effect that no default exists in connection with the Bonds, Parity Bonds, any Additional Bonds, the Trust Indenture or the Utility Construction Contract (or any amendment or supplement thereto) or with any of the covenants or requirements of the Bond Resolution (or any amendments or supplements thereto) authorizing the issuance of all then outstanding Bonds, Parity Bonds and Additional Bonds, and that the Debt Service Fund contains the amounts then required to be on deposit therein;
- (3) The Additional Bonds shall be scheduled to mature or be payable as to principal on November 15 or May 15 in each year the same are to be outstanding or during the term thereof;
- (4) The City approves in writing a substantial draft of the resolution authorizing the issuance of such Additional Bonds, as required by the Utility Construction Contract;
- (5) All necessary certificates, orders and approvals are obtained from each appropriate federal or state agency; and
- (6) In the case of any Additional Bonds the proceeds of which are to be used solely for the purpose of paying the cost of completion of the Contract Facilities, the satisfaction of conditions (1), (2), (3), (4) and (5) above are required to be satisfied, together with the following conditions:

- (A) the City is required to make a forecast (the "Forecast") of the operations of the Waterworks and Sewer System demonstrating, for the period (the "Forecast Period") of each ensuing fiscal year of the City through the fifth fiscal year of the City subsequent to the latest estimated date the Contract Facilities are expected to be commercially operative, the ability of such System to pay all obligations payable solely from the Net Revenues of such System to be outstanding after the issuance of the Additional Bonds then being issues, and
- (B) an independent engineer is required to review such Forecast and execute a certificate to the effect that such Forecast is reasonable, and, based thereon (and such other factors deemed to be relevant), the Net Revenues of the Waterworks and Sewer System will be adequate for the Forecast Period to pay all the obligations, payable solely therefrom, to be outstanding after the issuance of the Additional Bonds then being issued.

(7) In the case of any Additional Bonds the proceeds of which are to be used for any purpose other than paying the cost of completion of the Contract Facilities or refunding any outstanding Bonds, the satisfaction of conditions (1), (2), (3), (4), (5) and (6) above, and a certificate or opinion of a Certified Public Accountant is secured by the City to the effect that, according to the bonds and records of the City, the Net Earnings for the preceding Fiscal Year of the City or for 12 consecutive months out of the 15 months immediately preceding the month the resolution authorizing the Additional Bonds is adopted are at least equal to (A) the sum of all amounts required to be deposited from the Water and Sewer System Fund (i) in any special funds or accounts created for the payment and security of the Priority Bonds, (ii) in the Interest and Redemption Fund and Reserve Fund for the payment of principal of and interest on the City's Water, Sewer and Electric Refunding Bonds, Series 1982 (the "Series 1982 Bonds"), and Additional Parity Bonds and (iii) to establish and maintain the Required Reserve as provided in the ordinance of the City authorizing the Series 1982 Bonds (the "City Bond Ordinance") or any other ordinance relating to obligations for which the Reserve Fund was created and established to pay, plus (B) an amount equal to 1.25 times the combined maximum annual payments to be made during a Fiscal Year of the City on all Separate Lien Obligations of the City Waterworks and Sewer System for purposes of paying or representing the payment of, principal of and interest on all indebtedness incurred by reason of, resulting from or issued pursuant to such Separate Lien Obligations. In making a determination of the Net Earnings, the Accountant shall include in Net Earnings the District Available Revenues and may take into consideration a change in the rates and charges for services and facilities afforded by the Waterworks and Sewer System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the Waterworks and Sewer System for the period of time covered by his certificate or opinion based on such change in rates and charges being in effect for the entire period covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion. The term "Net Earnings" shall mean the Gross Revenues of the Waterworks and Sewer System after deducting the Maintenance and Operating Expenses of said System, but no expenditures which, under standard accounting practice, should be charged to capital expenditures. For the purpose of this condition (7), all capitalized terms shall

have the same meanings assigned to such terms by the City Bond Ordinance, unless the context indicates otherwise and such term is defined herein.

Other Obligations of the District

The District reserves the right, with consent of the City, to issue bonds and pledge the City Contract Payments to the payment thereof, such pledge to be junior and subordinate in all respects to the lien securing the Bonds, Parity Bonds and any Additional Bonds.

The District also reserves the right, with City approval, to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water and/or sewer and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The District further reserves the right, with City approval, to refund such bonds.

The District further reserves the right, with City approval, to authorize the issuance and sale of bonds or other obligations payable from and secured by (i) ad valorem taxes; (ii) a first lien on net revenues of any waterworks, sanitary sewer and drainage system owned or acquired by the District, excluding the facilities constituting the Contract Facilities (the "District System"); or (iii) a combination of such sources.

Tax-Supported Bonds

The District presently has voted authorization to issue \$73,100,000 unlimited tax and revenue bonds, of which \$18,275,000 have been issued and \$54,825,000 remain authorized but unissued. The District does not currently anticipate issuing the remaining authorized but unissued bonds but reserves the right to issue such bonds in the future.

FINANCIAL GUARANTY INSURANCE

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Paying Agent/Registrar. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent/Registrar has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$6,362,000,000 (unaudited) and statutory capital of approximately \$3,945,000,000 (unaudited) as of March 31, 2003. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "FINANCIAL GUARANTY INSURANCE".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;

3. The Company's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. The Company's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. The Company's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. The Company's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. The Company's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;
9. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003; and
10. The Company's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

DEBT SERVICE REQUIREMENTS (Table 1)

Fiscal Year Ending 9/30	Existing Contract Revenue Debt Service	Less Refunded Debt Service	The Bonds		Annual Debt Service	Total Contract Revenue Debt Service	District's Pro Rata Share ¹	City of Austin Contract Revenue Debt Service
			Principal	Interest				
2003	\$ 239,817.50	\$ 0	\$ 0	\$ 0	\$ 0	\$ 239,817.50	\$ 83,480.47	\$ 156,337.03
2004	1,622,725.00	425,815.00	0	97,930.69	97,930.69	1,294,840.69	450,734.04	844,106.65
2005	1,626,910.00	1,626,910.00	660,000	117,537.50	777,537.50	777,537.50	270,660.80	506,876.70
2006	1,641,685.00	1,641,685.00	685,000	104,087.50	789,087.50	789,087.50	274,681.36	514,406.14
2007	1,656,432.50	1,656,432.50	720,000	86,437.50	806,437.50	806,437.50	280,720.89	525,716.61
2008	1,665,875.00	1,665,875.00	750,000	64,387.50	814,387.50	814,387.50	283,488.29	530,899.21
2009	1,670,625.00	1,670,625.00	780,000	41,437.50	821,437.50	821,437.50	285,942.39	535,495.11
2010	1,783,500.00	1,783,500.00	915,000	14,868.75	929,868.75	929,868.75	323,687.31	606,181.44
	\$11,907,570.00	\$10,470,842.50	\$4,510,000	\$526,686.94	\$5,036,686.94	\$6,473,414.44	\$2,253,395.57	\$4,220,018.87

¹ Represents the District's pro rata share (34.81%) of the costs of the Contract Facilities under the Utility Construction Contract.

THE DISTRICT

General

The District, a municipal utility district created on November 15, 1983 by the Texas Water Commission (now the Texas Commission on Environmental Quality [the "TCEQ"]), pursuant to Article XVI, Section 59 of the Texas Constitution, operates pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is empowered to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District has no present plans to provide a fire department. The District currently provides solid waste collection and disposal through an independent contractor. The District is also empowered to operate and maintain recreational facilities. The District is subject to the continuing supervision of the TCEQ.

Annexation

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any city comprises that city's extraterritorial jurisdiction. The size of extraterritorial jurisdiction depends in part on the city's population. For the City of Austin, the extraterritorial jurisdiction consists of all the contiguous unincorporated areas, not a part of any other city or that city's extraterritorial jurisdiction, within five (5) miles of the corporate limits of the City. With certain exceptions, the City may annex territory only within the confines of its extraterritorial jurisdiction. When the City annexes additional territory, the City's extraterritorial jurisdiction expands in conformity with such annexation.

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Austin, except for 11.61 acres which lie within the city limits of the City of Austin, the District must conform to a City of Austin consent ordinance. In addition, the District may be annexed in whole or in part, without the District's consent. If the District is annexed, the City will assume the District's assets, functions, and obligations (including the Bonds) and dissolve the District. No representation is made concerning the likelihood of annexation or the ability of the City to make debt service payments should annexation occur. The Bond Order provides for the termination of the pledge of revenues to the Bonds upon annexation and dissolution by the City. (See "THE DISTRICT - City of Austin Consent Agreement" herein.)

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater system of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

City of Austin Consent Agreement

Under Texas law, the City of Austin (the "City") was required to give its consent to the creation of the District. The vehicle for this consent is an ordinance passed by the City, a part of which includes the agreement concerning creation and operation of North Austin Municipal Utility District No. 1 (the "Consent Agreement"). By passage of an ordinance, the City unconditionally granted its consent to the creation of the District for the purpose of issuing bonds approved by the City. The following is a summary of certain terms and provisions of the Consent Agreement. It is not a complete description of such agreement and is qualified by reference to the Consent Agreement, copies of which may be obtained from the Financial Advisor.

Under the Consent Agreement, the City agrees to provide water and wastewater service to all of the users within the District. The District itself is a customer of the City, and the City and the District have agreed that water supplied to the District pursuant to the Consent Agreement will be at the rate or rates established by the City for water supplied to water districts generally. The Consent Agreement also provides that the City will not be liable for the failure to provide water and wastewater service resulting from conditions beyond the City's control. In addition, the City has the right to limit service to the District on the same basis and to the same extent that it limits service to other customers. The Consent Agreement provides that the District will not serve customers outside its boundaries without prior City permission. The Consent Agreement provides that the applicable developer within the District will serve as project manager for the construction of the facilities constituting the District's water, wastewater and drainage system. Such facilities are required to be reviewed and approved by the appropriate agencies of the State of Texas and by the City prior to construction.

The District and the City have agreed to certain land use controls including use density limitations for property located within the boundaries of the District. Prior to development, the land in the District must be subdivided in accordance with Texas law. The Consent Agreement also contains certain provisions which limit the right of the City to annex the land within the District and of the District to annex additional land without the prior approval of the City. The Consent Agreement has a maximum term of 40 years.

Description and Location

The District consists of approximately 997.7 acres of land located in Williamson and Travis counties, approximately 11 miles north of the central business district of the City of Austin, and three miles east of the intersection of U.S. Highway 183 and RR 620. There have been no annexations or exclusions of area since creation. A small portion of the District (approximately 11.61 acres of public right-of-way) lies within the boundaries of the City of Austin and the remainder lies wholly within the

exclusive extraterritorial jurisdiction of the City of Austin and within the boundaries of the Round Rock Independent School District. The District lies partially within the Edwards Aquifer Recharge Zone.

STATUS AND HISTORY OF DEVELOPMENT

Development within the District began in the early 1980s with the development of the initial sections of the Milwood subdivision by Milwood Joint Venture II, a joint venture between Milburn Investments, Inc. and Palmar Associates, Ltd. From 1983 to 2000 development and construction of single-family homes within the District continued intermittently. Virtually all homes constructed in the District were built by Milburn Homes or a successor in interest thereto.

The District contains approximately 884 acres of developable property which as of May 1, 2003 have been developed into approximately 2,700 completed single-family homes, and four vacant developed lots. The potential single-family residential development is 99% developed. Additionally, the District contains a 300-unit multi-family residential project, commercial development, and a 71-acre tract which is the site of the State Farm regional office complex. The District also owns approximately 5.3 acres of park land which includes a swimming pool and bathhouse, tennis courts, a soccer field, jogging trail and playscape. The cost of providing such services is funded by a portion of the maintenance tax levied annually by the District and by fees charged to persons utilizing such facilities. Homes within the District range in price from approximately \$90,000 to \$250,000.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board of Directors (the "Board"), consisting of five (5) members, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held on the first Saturday of May in even numbered years only. Four (4) of the members of the Board own homes and reside in the District and one (1) of the Board members owns property in the District. The current members and officers of the Board, along with their titles, occupations, and terms, are listed as follows:

Name	District Board Title	Term Expires (May)	Primary Occupation
Terry Ripperda	President	2004	Home Mortgage Company Executive
Alan McNeil	Vice-President	2006	Computer Company Finance Manager
Don Conklin	Treasurer	2006	Optical Equipment Design Executive
Chuck Simms	Secretary	2004	Consultant
Keith Collins	Assistant Secretary/ Treasurer	2004	Engineer

SUMMARY OF SELECTED PROVISIONS OF THE BOND DOCUMENTS

Summary of the Utility Construction Contract

Following is a summary of certain provisions of the Utility Construction Contract. Reference is hereby made to the full and complete Utility Construction Contract for further information, copies of which are available upon request from the District.

Obligation of the District

Pursuant to the Utility Construction Contract, the District has agreed to finance and acquire the Contract Facilities. For purposes of refinancing in part, the costs of the Contract Facilities, the District has agreed to issue and sell the Bonds. The District and the City have agreed that all bonds issued by the District pursuant to the provisions of the Utility Construction Contract shall be

payable solely from the City Contract Payments, as described in "Payments by the City" below. All payments by the City are payable to the Trustee.

Prior to the passage of any resolution or order authorizing the issuance of bonds under the Utility Construction Contract, a substantial draft of such resolution or order, including any trust indenture authorized therein to secure such bonds, is required to be delivered to and approved by the City. Such approval, if and when given, constitutes the acknowledgement and agreement of the City that such bonds are to be issued in accordance with and in compliance with the Utility Construction Contract and the bond order for such bonds. Any registered owner of such bonds is entitled to rely fully and unconditionally on any such approval.

In consideration of the payments to be made by the City, as specified in the Utility Construction Contract, the District has conveyed to the City the Contract Facilities, and the City has the sole responsibility for the maintenance and operation of the Contract Facilities at its expense.

Pro Rata Share of the District

The District has agreed to pay to the City a pro rata share of the cost of the Contract Facilities based upon the capacity reserved for service to the District, which currently is estimated to be 34.81%. The District has agreed to make annual payments to the City in amounts sufficient to provide for payment of such pro rata share. The payments to the City for the District's pro rata share are secured by a pledge of the net revenues derived from the operation and ownership of the District's utility system and an ad valorem tax, imposed by the District, in an amount not exceeding \$1.10 per \$100 assessed valuation, which the District has agreed to levy, assess and collect, upon all taxable property within the District at the same time as other District taxes are levied, assessed and collected.

Payments by the City

City's Obligation to Make Payments: In consideration of the conveyance of the Contract Facilities to the City, the City has agreed to pay the City Contract Payments directly to the Trustee in an amount equal to the total principal, interest, premium, if any, and Trustee and Paying Agent/Registrar's fees and other charges and expenses which may accrue in connection with the payment and discharge of the Bonds. Upon the City's approval of a substantial draft of the Bond Order and the issuance and delivery of the Bonds, the City's obligation to make the City Contract Payments shall become a binding obligation of the City until the entire principal of and premium, if any, and interest on the Bonds have been paid and provided for.

Pledge of Net Revenues of City's Waterworks and Sewer System. All payments required to be made by the City under the Contract constitute a "Separate Lien Obligation," which, under the provisions of the City Bond Ordinances is an obligation of the City which is payable from the Net Revenues of the City's Waterworks and Sewer System. The City has pledged the Net Revenues of the City's Waterworks and Sewer System, with the exception of those Net Revenues in excess of the amounts required for payment of the City Contract Payments, equally and ratably, to the payment and security of the Bonds and to the City Contract Payments. Such lien and pledge is on a parity and of equal dignity with the lien and pledge of the Net Revenues of the City's Waterworks and Sewer System securing the City's outstanding Subordinate Lien Bonds and any other Separate Lien Obligations of the City's Waterworks and Sewer System now outstanding or hereafter issued, and is subject to the prior lien and pledge of the Net Revenues of the City's Waterworks and Sewer System to the payment and security of the City's Prior Lien Bonds. See "SECURITY FOR THE BONDS - Security for the City Contract Payments."

Rate Covenants of the City

Under the Utility Construction Contract, the City has agreed to establish and maintain rates and charges for the facilities and services provided by the City's Systems to provide gross revenues in each fiscal year from each system sufficient (i) to pay the maintenance and operating expenses thereof, (ii) to establish, maintain and restore the required balance in any reserve or contingency fund created for the payment and security of the Separate Lien Obligations, (iii) to produce combined Net Revenues of the City's Systems sufficient to pay amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Prior Lien Bonds, Subordinate Lien Bonds, and other obligations or evidences of indebtedness payable only from and secured solely by a lien on and pledge of the combined Net Revenues of the City's Systems, and (iv) to produce combined Net Revenues of the City's Systems (after satisfaction of amounts required in (ii) and (iii) above) equal to at least the sum of (a) 1.25 times the annual principal and interest requirements (or other similar payments) for the then outstanding Prior Lien Bonds and Separate Lien Obligations plus (b) 1.10 times the total annual principal and interest requirements (or other similar payments) for the then outstanding Subordinate Lien Bonds and all other indebtedness, except Prior Lien Bonds and Separate Lien Obligations, payable solely from and secured solely by a lien on and pledge of the Net Revenues of either the City's Electric System or the City's Waterworks and Sewer System, or both.

Terms of Contract

The Utility Construction Contract will be in force and effect for so long as the Bonds, or any portion of the Bonds, remain outstanding and unpaid, provided that in no event shall the term of the Utility Construction Contract exceed forty (40) years from the date of execution of the Utility Construction Contract by the District (February 21, 1984).

Remedies Upon Default

The Utility Construction Contract does not specify an exclusive remedy for any default, but all remedies (other than termination) existing at law or in equity may be availed of by the District or the City and shall be cumulative. In addition, the District and the City have agreed that each shall have available to it the equitable remedies of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination), which may also be available to the District of the City.

Summary of the Bond Order

The Bond Order prescribes the form of the Bonds and terms, conditions and provisions for the payment of the principal of, premium, if any, and interest on the Bonds. References to the Bonds also apply to the Parity Bonds in this Section of the Official Statement. The following is a summary of certain terms and provisions of the Bond Order, but the summary is not a complete description and is qualified by reference to the Bond Order, copies of which are available from the District upon request.

Security of the Bonds

The Bond Order provides that the Bonds are secured by and payable from a first lien on and pledge of the City Contract Payments.

Application of Moneys Under the Bond Order

The Bond Order further provides for the creation of the Debt Service Fund to be maintained by the Trustee and held in trust for the benefit of the registered owners of the Bonds, the Parity Bonds and any additional parity bonds pursuant to the Bond Order and the Trust Indenture ("Additional Bonds"). The Debt Service Fund constitutes a trust fund solely for the payment of the principal of, redemption premium, if any, and interest on the Bonds, the Parity Bonds and any Additional Bonds.

Proceeds from the sale of the Bonds shall, promptly upon receipt by the District, be applied as follows: (i) accrued interest shall be deposited into the Debt Service Fund; (ii) the remaining proceeds from the sale of the Bonds shall be applied to establish an escrow fund to refund the Refunded Bonds and to the extent not otherwise provided for, to pay all expenses, including bond insurance premiums, if any, arising in connection with the issuance of the Bonds, the establishing of such escrow fund and the refunding of the Refunded Bonds; and (iii) any proceeds of the Bonds remaining after making all such deposits and payments shall be deposited into the Debt Service Fund. Pursuant to the Utility Construction Contract, the City has irrevocably agreed, for so long as the Bonds, the Parity Bonds or any Additional Bonds are outstanding, to pay the City Contract Payments. The City Contract Payments are to be paid directly to the Trustee, and the Trustee shall deposit all such payments as provided in the Bond Order and Trust Indenture. See "PLAN OF FINANCING."

Investments of Moneys

To the extent permitted by law, moneys deposited into the Debt Service Fund will be invested in Authorized Investments. Interest and income derived from such investments shall be credited to, and any losses debited to, the fund or account from which the investment was made. The City and the District will share in any income credited to, or losses debited to, the Debt Service Fund, in accordance with their proportionate interests in such Funds, based on the District's pro rata share of debt service. The District and the City shall not be responsible to the Registered Owners for any loss arising out of the sale of any investment, except for losses resulting from the Trustee's willful or negligent failure to make or sell any investment within a reasonable time after proper direction to do so, or losses resulting from the making or selling of any investment which was not authorized by proper direction.

Additional Bonds of the District

The District has reserved the right, upon the approval of the City, to issue Additional Bonds for the purpose of financing the cost of the Contract Facilities or for the refunding of any outstanding Bonds or any Additional Bonds. When issued and delivered, such Additional Bonds shall be payable from the Debt Service Fund, and shall be payable from and secured by a first lien on and pledge of City Contract Payments, and shall be secured by the Trust Indenture, in the same manner and to the same extent as, and be on a parity with, all then outstanding Parity Bonds and Additional Bonds. As provided in the Bond Order, however, that no series or issue of Additional Bonds shall be issued unless certain terms and conditions are met and certain certificates delivered, as set forth more particularly in the Bond Order. See "Security for the Bonds - Additional Bonds of the District."

The Bond Order specifically recognizes the right of the City to issue bonds on a parity with or superior to bonds payable with the City Contract Payments. The Bond Order also recognizes that the District may issue other bonds (in addition to the Bonds or any Additional Bonds issued pursuant to the Bond Order), including refunding bonds, to the extent authorized by law and permitted by the Agreement, provided that such bonds are payable from and secured by sources other than City Contract Payments. See "SECURITY FOR THE BONDS - Other Obligations of the District."

Amendments to Bond Order, Trust Indenture and Utility Construction Contract

The Bond Order, Trust Indenture and Utility Construction Contract may be amended by the District with the consent of the City and the Bond Insurer (and of the Trustee for amendments to the Trust Indenture) for the purposes set forth in the Bond Order and under certain circumstances as set forth therein, the consent of the Registered Owners of the Bonds and any Additional Bonds then outstanding may be required. However, under no circumstances can the District consent to any amendments to the Utility Construction Contract that alters or amends the City's obligation to pay the City Contract Payments.

Summary of the Trust Indenture

The Trust Indenture, dated November 1, 1985, as supplemented July 1, 1989, January 1, 1994, and August 1, 2003, between the District and the Trustee, creates an express trust to which the District assigns all of its rights, title and interest in and to, and grants a security interest in, the Utility Construction Contract, including specifically the City Contract Payments and the Debt Service Fund. The Trustee accepts such assignment and covenants to discharge the duties detailed in the Trust Indenture. The District has expressly acknowledged that it shall be the sole responsibility of the Trustee with respect to the Utility Construction Contract to enforce on behalf of the Registered Owners of the Bonds of the obligation of the City to make or pay the City Contract Payments. The following is a summary of certain terms and provisions of the Trust Indenture, but it is not a complete description and is qualified by reference to the Trust Indenture, copies of which are available from the District.

In accepting the trust, the Trustee also agrees to act as the Paying Agent/Registrar for the Bonds and to authenticate the Bonds. The Trustee further agrees to hold and administer the Debt Service Fund. The Trustee is required to maintain separate records and books and to render an annual report. The books and records are available for inspection by the District and the City.

The Trustee is appointed the agent and representative of the Registered Owners of the Bonds with power to enforce the Utility Construction Contract, the Trust Indenture and the Bond Order. No Registered Owner of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Trust Indenture, the Utility Construction Contract or the Bond Order, or for the execution of any trust under the Trust Indenture, or for the appointment of a receiver, or enforcement of any remedy under the Trust Indenture, except pursuant to the terms of the Trust Indenture.

In the case of any default under the provisions of the Bonds, the Utility Construction Contract, the Bond Order or the Trust Indenture, the Trustee may, in addition to any other remedies available to it, enforce any covenant in the Bonds, the Utility Construction Contract, the Bond Order or the Trust Indenture through the remedies of mandamus or specific performance, or by the appointment of a receiver. In the event of any such default, the Bonds may not be declared immediately due and payable by the Trustee or the Registered Owners. Any moneys received by the Trustee pursuant to any action taken as a result of an event of default shall, after payment of the fees and expenses of the Trustee, be applied in the manner prescribed in the Trust Indenture to the payment of principal of and interest on the Bonds.

Except for the failure of the City to make City Contract Payments or for a default in the payment of any amount with respect to the Bonds when and as they become due and payable, which failure or default shall not have been remedied and made good, the Trustee shall waive any event of default and its consequences upon the written request of the Registered Owners of a majority in aggregate principal amount of all Bonds and Additional Bonds then outstanding. In case of any such waiver the District, the Trustee, the City and the Registered Owners of the Bonds shall be restored to their former positions and rights under the Trust Indenture, but no such waiver or decision shall extend to any subsequent or other event of default, or any right consequent thereon.

The Trust Indenture provides that the Trustee shall be compensated from the Debt Service Fund and that the Trustee's expenses, advances and counsel fees will be paid from the same fund. The Trustee's responsibility is limited and the Trustee shall not be liable for action taken in good faith and shall not be required to expend its own funds or take any action which would conflict with any rule of law or the terms of the Trust Indenture. The Trust Indenture also provides that the Trustee may own Bonds and will have the same rights as if it were not Trustee. In addition, the Trust Indenture also makes provision for the resignation or removal of a Trustee and the appointment of a successor Trustee.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986, as amended (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 D -- Form of Bond Counsel Opinion."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate; (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith; and (c) the report prepared by Grant Thornton LLP, Certified Public Accountants. Although it is expected that the Bonds will qualify as tax-exempt obligations for federal income tax purposes as of the date of issuance, the tax-exempt status of the Bonds could be affected by future events. However, future events beyond the control of the District, as well as the failure to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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