

RESOLUTION NO. 20120802-066

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF AUSTIN:

Council authorizes the Northtown Municipal Utility District (District) to issue in one or more series its Unlimited Tax and Revenue Refunding Bonds, Series, 2012, in a principal amount not to exceed \$3,890,000, and approves a substantial draft of the District's Bond Order (Exhibit 1) and the Preliminary Official Statement (Exhibit 2). All series of the bonds must be issued by August 2, 2013, and the final maturity for each series of bonds cannot extend beyond September 1, 2028.

ADOPTED: August 2, 2012

ATTEST:

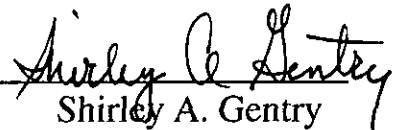

Shirley A. Gentry
City Clerk

EXHIBIT 1

ORDER AUTHORIZING THE ISSUANCE OF
NORTHTOWN MUNICIPAL UTILITY DISTRICT
UNLIMITED TAX AND REVENUE REFUNDING BONDS;
AUTHORIZING THE LEVY OF AN AD VALOREM TAX IN SUPPORT
OF THE BONDS; ENTERING INTO A PAYING AGENT/REGISTRAR
AGREEMENT, A BOND PURCHASE AGREEMENT AND AN ESCROW AGREEMENT;
APPROVING AN OFFICIAL STATEMENT; ESTABLISHING THE PROCEDURES
FOR SELLING AND DELIVERY OF THE BONDS;
AND OTHER MATTERS RELATED TO THE ISSUANCE OF THE BONDS

Adopted February 28, 2012

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**THE STATE OF TEXAS
COUNTY OF TRAVIS
NORTHTOWN MUNICIPAL UTILITY DISTRICT**

WHEREAS, Chapter 1207 authorizes the District to issue refunding bonds and to deposit the proceeds from the sale thereof together with any other available funds or resources, directly with

a place of payment (paying agent) for the Refunded Bonds or eligible trust company or commercial bank, and such deposit, if made before such payment dates, shall constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; and

WHEREAS, Chapter 1207 further authorizes the District to enter into an escrow agreement with respect to the safekeeping, investment, reinvestment, administration and disposition of any such deposit, upon such terms and conditions as the District and such escrow agent may agree, provided that such deposits may be invested and reinvested in Defeasance Securities, as defined herein; and

WHEREAS, the Escrow Agreement hereinafter authorized, constitutes an agreement of the kind authorized and permitted by Chapter 1207; and

WHEREAS, the Board of Directors of the District deems it advisable and in the best interest of the District to refund the Refunded Bonds in order to achieve a net present value debt service savings of not less than 4.25% of the principal amount of the Refunded Bonds net of any District contribution with such savings, among other information and terms to be included in a Pricing Certificate to be executed by the Pricing Officer, both as hereinafter defined, all in accordance with the provisions of Chapter 1207, including Section 1207.007 thereof; and

THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE NORTHTOWN MUNICIPAL UTILITY DISTRICT:

Section 1. AMOUNT, NAME, PURPOSE, AND AUTHORIZATION. Each Bond issued pursuant to this Bond Order shall be known and designated as "Northtown Municipal Utility District Unlimited Tax and Revenue Refunding Bond," and the Bonds are hereby authorized to be issued and delivered in the maximum aggregate principal amount not to exceed \$36,540,000 for the purpose of refunding the Refunded Bonds and paying certain costs of issuing the Bonds. The title of the Bonds shall be designated by the year in which it is awarded pursuant to Section 3 below and in the event that another series of bonds is issued by the Board within a calendar year each series within that year will have a letter designation following the year. The authority of the Pricing Officer to execute a Pricing Certificate shall expire at 5:00 p.m. on August 28, 2012. Bonds priced on or before August 28, 2012 may be delivered to the initial purchaser after such date.

Section 2. DEFINITIONS. In addition to other words and terms defined in this Order (except those defined and used in the Form of the Bonds in Section 6), and unless a different meaning or intent clearly appears in the context, the following words and terms shall have the following meanings, respectively:

"Accretion Table" means the exhibit attached to the Pricing Certificate that sets forth the rounded original principal amounts at the Issuance Date for the Premium Compound Interest Bonds and the Accreted Values and maturity amounts thereof as of each Compounding Date until final maturity.

"Additional Bonds" means the Bonds authorized by Section 14 of this Order.

"Authorized Denominations" means the denomination of \$5,000 or any integral multiple thereof with respect to the Current Interest Bonds and in the denomination of \$5,000 in maturity amount or any integral multiple thereof with respect to the Premium Compound Interest Bonds.

"Bonds" means and includes collectively the Premium Compound Interest Bonds and Current Interest Bonds initially issued and delivered pursuant to this Bond Order and the Pricing Certificate and all substitute Bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

"Bond Insurer" means the insurer of the bonds, if any, as designated in the Pricing Certificate.

"Bond Order" or "Order" means this Bond Order of the Board of Directors authorizing the issuance of the Bonds.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Commission" means the Texas Commission on Environmental Quality.

"Compounded Amount" means, with respect to a Premium Compound Interest Bond, as of any particular date of calculation, the original principal amount thereof plus all interest accrued and compounded to the particular date of calculation.

"Compounding Dates" means the dates on which interest is compounded on the Premium Compound Interest Bonds as set forth in the Accretion Table attached to the Pricing Certificate.

"Contract" shall mean the "Utility Construction Contract between the City of Austin and Northtown Municipal Utility District" dated as of August 31, 1984, and any and all supplements or amendments thereto.

"Contract Facilities" shall mean the project as defined in the Contract.

"Current Interest Bonds" means the Bonds paying current interest and maturing in each of the years and in the aggregate principal amounts set forth in the Pricing Certificate.

"Defeasance Securities" means (i) Federal Securities, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board of Directors

adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

"Escrow Agent" means BOKF, NA dba Bank of Texas any successors escrow agent under the Escrow Agreement.

"Escrow Agreement" means the agreement by and between the District and the Escrow Agent relating to the defeasance of the Refunded Bonds.

"Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

"Initial Bond" means the Bond authorized, issued, and initially delivered as provided in Section 3 of this Bond Order.

"Interest Payment Date" means a date on which interest on the Current Interest Bonds is due and payable as set forth in the Pricing Certificate.

"Interest and Sinking Fund" shall have the meaning as set forth in Section 6.

"Issuance Date" means the date of delivery of the Bonds.

"MSRB" means the Municipal Securities Rulemaking Board.

"Net Revenues" shall mean income or increment which may grow out of the ownership and operation of the District's System, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of the District's System; provided, however, that the term Net Revenues shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District to be paid to any person pursuant to a contract authorized by Section 402.014, Local Government Code, as amended (formerly Article 1109j, Texas Revised Civil Statutes, as amended) or any other contract permitted by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project.

"Outstanding Bonds" means the District's outstanding Northtown Municipal Utility District Unlimited Tax and Revenue Refunding Bonds, Series 2004, dated September 1, 2004, issued in the original principal amount of \$2,505,000; Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2006, dated April 1, 2006, issued in the original principal amount of \$4,500,000; Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2007, dated October 1, 2007, issued in the original principal amount of \$6,005,000; Northtown Municipal

Utility District Unlimited Tax and Revenue Bonds, Series 2009, dated April 1, 2009, issued in the original principal amount of \$7,560,000, Northtown Municipal Utility District Unlimited Tax and Revenue Refunding Bonds, Series 2010, dated November 1, 2010, issued in the original principal amount of \$5,895,000 and Northtown Municipal Utility District Unlimited Tax and Revenue Bonds, Series 2011, dated October 1, 2011, issued in the original principal amount of \$4,790,000.

"Premium Compound Interest Bonds" means the Bonds on which no interest is paid prior to maturity, maturing in various amounts and in the aggregate principal amount as set forth in the Pricing Certificate.

"Pricing Certificate" means the Pricing Certificate of the District's Pricing Officer to be executed and delivered pursuant to Section 3 hereof in connection with the Bonds.

"Pricing Officer" means the President of the Board of the District or in his or her absence the Assistant Secretary of the Board, acting as the designated pricing officer of the District to execute the Pricing Certificate.

"Redemption Date" means a date fixed for redemption of any Bond pursuant to the terms of this Bond Order.

"Refundable Bonds" means any of the Outstanding Bonds.

"Refunded Bonds" means those Refundable Bonds designated by the Pricing Officer in the Pricing Certificate to be refunded.

"Registrar" or "Paying Agent/Registrar" means BOKF, NA dba Bank of Texas, or such other bank, trust company, financial institution, or other entity as may hereafter be designated by the District to act as paying agent/ and registrar for the Bonds in accordance with the terms of this bond Resolution.

"Registration Books" means the books and records kept and maintained by the Paying Agent/Registrar relating to the registration, transfer, exchange and payment of the Bonds and the interest thereon.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"Special Project Bonds" shall mean those bonds authorized pursuant to Section 15 of this Bond Order.

"System" means the works, improvements, facilities, plants, equipment, and appliances comprising the waterworks, sanitary sewer, and drainage system of the District now owned or to be hereafter purchased, constructed, or otherwise acquired whether by deed, contract, or otherwise,

together with any additions or extensions thereto or improvement and replacements thereof, except the Contract Facilities and the water and/or sewer and/or drainage facilities which the District may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System.

"Underwriter" means the purchaser of the Bonds as set forth in the Pricing Certificate.

Section 3. DATE, DENOMINATIONS, NUMBERS, DELEGATION TO PRICING OFFICER. (a) There initially shall be issued, sold and delivered fully registered bonds, without interest coupons, which may be in the form of Current Interest Bonds or Premium Compound Interest Bonds, numbered consecutively from R-1 upward, in the case of Current Interest Bonds, and from PC-1 upward, in the case of Premium Compound Interest Bonds (except the initial Bonds delivered to the Attorney General of the State of Texas which shall be numbered T-1 and TPC-1 and upward, respectively) payable to the respective initial Registered Owners thereof, or to the registered assignee or assignees of said Bonds or any portion or portions thereof, in Authorized Denominations, maturing not later than September 1, 2031, serially or otherwise on the dates, in the years and in the principal amounts, respectively, and dated, all as set forth in the Pricing Certificate to be executed and delivered by the Pricing Officer pursuant to subsection (b) of this Section. The Pricing Certificate is hereby incorporated in and made a part of this Order and shall be filed in the minutes of the Board as a part of this Order.

(b) As authorized by Section 1207.007, Texas Government Code, as amended, the Pricing Officer is hereby authorized to act on behalf of the District in selling and delivering the Bonds, determining which of the Refundable Bonds shall be refunded and constitute "Refunded Bonds" under this Order and carrying out the other procedures specified in this Order, including determining the date of the Bonds, any additional or different designation or title by which the Bonds shall be known, the price at which the Bonds will be sold, the years in which the Bonds will mature, the principal amount to mature in each of such years, the aggregate principal amount of Current Interest Bonds and Premium Compound Interest Bonds, the rate of interest to be borne by each such maturity, the interest payment periods, the dates, price, and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the District, as well as any mandatory sinking fund redemption provisions, and all other matters relating to the issuance, sale, and delivery of the Bonds and the refunding of the Refunded Bonds, all of which shall be specified in the Pricing Certificate; provided that (i) the price to be paid for the Bonds shall not be less than 90% of the aggregate original principal amount thereof plus accrued interest thereon from its date to its delivery, (ii) none of the Bonds shall bear interest at a rate, or yield in the case of Premium Compound Interest Bonds, greater than the maximum authorized by law, and (iii) the refunding must produce a net present value debt service savings of at least 4.25% of the principal amount of the Refunded Bonds, net of any District contribution. In establishing the aggregate principal amount of the Bonds, the Pricing Officer shall establish an amount not to exceed the amount authorized in Section 1 of this Order, which shall be sufficient to provide for the purposes for which the Bonds are authorized and to pay the costs of issuing the Bonds. To achieve the lowest borrowing costs, the Bonds shall be sold to the public on a negotiated basis. The Pricing Officer shall designate the

senior managing underwriter for the Bonds and such additional investment banking firms as the Pricing Officer deems appropriate to assure that the Bonds are sold on the most advantageous terms.

The Pricing Officer, acting for and on behalf of the District, is authorized to enter into and carry out a bond purchase contract with the underwriter(s) at such price, with and subject to such terms as determined by the Pricing Officer.

In satisfaction of Section 1201.022(a)(3), Texas Government Code, the Board of Directors hereby determines that the delegation of the authority to the Pricing Officer to approve the method of sale and final terms and conditions of the Bonds as set forth in this Order is, and the decisions made by the Pricing Officer pursuant to such delegated authority and incorporated in the Pricing Certificate will be, in the District's best interests and shall have the same force and effect as if such determination were made by the Board of Directors, and the Pricing Officer is hereby authorized to make and include in the Pricing Certificate an appropriate finding to that effect.

(c) To achieve advantageous borrowing costs for the District, the Bonds shall be sold on a negotiated, placement or competitive basis as determined by the Pricing Officer in the Pricing Certificate. In determining whether to sell the Bonds by negotiated, placement or competitive sale, the Pricing Officer shall take into account any material disclosure issues which might exist at the time, the market conditions expected at the time of the sale and any other matters which, in the judgment of the Pricing Officer, might affect the net borrowing costs on the Bonds.

If the Pricing Officer determines that the Bonds should be sold at a competitive sale, the Pricing Officer shall cause to be prepared a notice of sale and official statement in such manner as the Pricing Officer deems appropriate, to make the notice of sale and official statement available to those institutions and firms wishing to submit a bid for the Bonds, to receive such bids, and to award the sale of the Bonds to the bidder submitting the best bid in accordance with the provisions of the notice of sale.

If the Pricing Officer determines that the Bonds should be sold by a negotiated sale or placement, the Pricing Officer shall designate the placement purchaser or the senior managing underwriter for the Bonds and such additional investment banking firms as the Pricing Officer deems appropriate to assure that the Bonds are sold on the most advantageous terms to the District. The Pricing Officer, acting for and on behalf of the District, is authorized to enter into and carry out a purchase agreement or other agreement for the Bonds to be sold by negotiated sale or placement, with the underwriters or placement purchasers at such price, with and subject to such terms as determined by the Pricing Officer pursuant to Section 3(b) above.

(d) The Current Interest Bonds shall bear interest calculated on the basis of a 360-day year composed of twelve 30-day months from the dates specified in the FORM OF BONDS set forth in this Order to their respective dates of maturity or redemption at the rates per annum set forth in the Pricing Certificate.

The Premium Compound Interest Bonds shall bear interest from the Issuance Date, calculated on the basis of a 360-day year composed of twelve 30-day months (subject to rounding to

the Compounded Amounts thereof), compounded on the Compounding Dates as set forth in the Pricing Certificate, and payable, together with the principal amount thereof, in the manner provided in the Form of Bonds at the rates set forth in the Pricing Certificate. Attached to the Pricing Certificate, if Premium Compound Interest Bonds are to be issued, shall be the Accretion Table. The Accreted Value with respect to any date other than a Compounding Date is the amount set forth on the Accretion Table with respect to the last preceding Compounding Date, plus the portion of the difference between such amount and the amount set forth on the Accretion Table with respect to the next succeeding Compounding Date that the number of days (based on 30-day months) from such last preceding Compounding Date to the date for which such determination is being calculated bears to the total number of days (based on 30-day months) from such last preceding Compounding Date to the next succeeding Compounding Date.

Section 4. CHARACTERISTICS OF THE BONDS. (a) Registration, Transfer, Conversion and Exchange; Authentication. The District shall keep or cause to be kept at the designated office for payment of BOKF, NA dba Bank of Texas (the "Paying Agent/Registrar") in Austin, Texas books or records for the registration of the transfer, conversion and exchange of the Bonds (the "Registration Books"), and the District hereby appoints the Paying Agent/Registrar as its registrar and transfer agent to keep such books or records and make such registrations of transfers, conversions and exchanges under such reasonable regulations as the District and Paying Agent/Registrar may prescribe; and the Paying Agent/Registrar shall make such registrations, transfers, conversions and exchanges as herein provided. The Paying Agent/Registrar shall obtain and record in the Registration Books the address of the registered owner of each Bond to which payments with respect to the Bonds shall be mailed, as herein provided; but it shall be the duty of each registered owner to notify the Paying Agent/Registrar in writing of the address to which payments shall be mailed, and such interest payments shall not be mailed unless such notice has been given. To the extent possible and under reasonable circumstances, all transfers of Bonds shall be made within three business days after request and presentation thereof. The District shall have the right to inspect the Registration Books during regular business hours of the Paying Agent/Registrar, but otherwise the Paying Agent/Registrar shall keep the Registration Books confidential and, unless otherwise required by law, shall not permit their inspection by any other entity. The Paying Agent/Registrar's standard or customary fees and charges for making such registration, transfer, conversion, exchange and delivery of a substitute Bond or Bonds shall be paid as provided in the FORM OF BONDS set forth in this Order. Registration of assignments, transfers, conversions and exchanges of Bonds shall be made in the manner provided and with the effect stated in the FORM OF BONDS set forth in this Order. Each substitute Bond shall bear a letter and/or number to distinguish it from each other Bond.

An authorized representative of the Paying Agent/Registrar shall, before the delivery of any such Bond, date and manually sign the Paying Agent/Registrar's Authentication Certificate, and no such Bond shall be deemed to be issued or outstanding unless such Certificate is so executed. The Paying Agent/Registrar promptly shall cancel all paid Bonds and Bonds surrendered for conversion and exchange. No additional ordinances, orders, or resolutions need be passed or adopted by the Board of Directors of the District or any other body or person so as to accomplish the foregoing conversion and exchange of any Bond or portion thereof, and the Paying Agent/Registrar shall

provide for the printing, execution, and delivery of the substitute Bonds in the manner prescribed herein, and the Bonds shall be of typewritten, photocopied, printed, lithographed, engraved or produced in any other similar manner, all as determined by the officers executing such bond as evidenced by their execution thereof. Pursuant to Chapter 1201, Government Code, as amended, the duty of conversion and exchange of Bonds as aforesaid is hereby imposed upon the Paying Agent/Registrar, and, upon the execution of said Certificate, the converted and exchanged Bond shall be valid, incontestable, and enforceable in the same manner and with the same effect as the Bonds which initially were issued and delivered pursuant to this Order, approved by the Attorney General, and registered by the Comptroller of Public Accounts of the State of Texas (the "Comptroller").

(b) Payment of Bonds and Interest. The District hereby further appoints the Paying Agent/Registrar to act as the paying agent for paying the principal of and interest on the Bonds, all as provided in this Order. The Paying Agent/Registrar shall keep proper records of all payments made by the District and the Paying Agent/Registrar with respect to the Bonds, and of all conversions and exchanges of Bonds, and replacements of Bonds, as provided in this Order. However, in the event of a nonpayment of interest on a scheduled payment date, and for 30 calendar 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 District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar 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 appearing on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

(c) In General. The Bonds (i) shall be issued in fully registered form, without interest coupons, with the principal of and interest on such Bonds to be payable only to the registered owners thereof, (ii) may be transferred and assigned, (iii) may be converted and exchanged for other Bonds, (iv) shall have the characteristics, (v) shall be signed, sealed, executed and authenticated, (vi) shall be payable as to the principal of and interest, (vii) may be redeemed prior to their scheduled maturities (notice of which shall be given to the Paying Agent/Registrar at least 40 calendar days prior to any such redemption date), and (viii) shall be administered, and the Paying Agent/Registrar and the District shall have certain duties and responsibilities with respect to the Bonds, all as provided, and in the manner and to the effect as required or indicated, in the FORM OF BONDS set forth in this Order and in the Pricing Certificate. The Bond initially issued and delivered pursuant to this Order are not required to be, and shall not be, authenticated by the Paying Agent/Registrar, but on each substitute Bond issued in conversion of and exchange for any Bond or Bonds issued under this Order the Paying Agent/Registrar shall execute the PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE, in the form set forth in the FORM OF BONDS.

(d) Substitute Paying Agent/Registrar. The District covenants with the registered owners of the Bonds that at all times while the Bonds are outstanding the District will provide a competent and legally qualified bank, trust company, financial institution, or other agency to act as and perform the services of Paying Agent/Registrar for the Bonds under this Order, and that the Paying

Agent/Registrar will be one entity. The District reserves the right to, and may, at its option, change the Paying Agent/Registrar upon not less than 30 days written notice to the Paying Agent/Registrar, to be effective at such time which will not disrupt or delay payment on the next principal or interest payment date after such notice. In the event that the entity at any time acting as Paying Agent/Registrar (or its successor by merger, acquisition, or other method) should resign or otherwise cease to act as such, the District covenants that promptly it will appoint a competent and legally qualified bank, trust company, financial institution, or other agency to act as Paying Agent/Registrar under this Order. Upon any change in the Paying Agent/Registrar, the previous Paying Agent/Registrar promptly shall transfer and deliver the Registration Books (or a copy thereof), along with all other pertinent books and records relating to the Bonds, to the new Paying Agent/Registrar designated and appointed by the District. Upon any change in the Paying Agent/Registrar, the District promptly will cause a written notice thereof to be sent by the new Paying Agent/Registrar to each registered owner of the Bonds, by United States mail, first-class postage prepaid, which notice also shall give the address of the new Paying Agent/Registrar. By accepting the position and performing as such, each Paying Agent/Registrar shall be deemed to have agreed to the provisions of this Order and a certified copy of this Order shall be delivered to each Paying Agent/Registrar.

(e) Book-Entry-Only System. The Bonds issued in exchange for the Bonds initially issued as provided in Section 3 shall be issued in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of The Depository Trust Company of New York ("DTC") and except as provided in subsection (f) hereof, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the District and the Paying Agent/Registrar shall have no responsibility or obligation to any securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC participants (the "DTC Participant") or to any person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than a Registered Owner, as shown on the Registration Books, of any notice with respect to the Bonds, or (iii) the payment to any DTC Participant or any person, other than a Registered Owner, as shown in the Registration Books of any amount with respect to principal of or interest on the Bonds. Notwithstanding any other provision of this Order to the contrary, but to the extent permitted by law, the District and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Registration Books as the absolute owner of such Bond for the purpose of payment of principal of and interest, with respect to such Bond, for the purposes of registering transfers with respect to such Bond, and for all other purposes of registering transfers with respect to such Bonds, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of and interest on the Bonds only to or upon the order of the respective Registered Owners, as shown in the Registration Books as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and

discharge the District's obligations with respect to payment of principal of and interest on the Bonds to the extent of the sum or sums so paid. No person other than a Registered Owner, as shown in the Registration Books, shall receive a Bond evidencing the obligation of the District to make payments of principal, and interest pursuant to this Order. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Order with respect to interest checks being mailed to the registered owner at the close of business on the Record Date the word "Cede & Co." in this Order shall refer to such new nominee of DTC.

(f) Successor Securities Depository; Transfer Outside Book-Entry-Only System. In the event that the District determines to discontinue the book-entry system through DTC or a successor or DTC determines to discontinue providing its services with respect to the Bonds, the District shall either (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository or (ii) notify DTC and DTC Participants of the availability through DTC of Bonds and transfer one or more separate Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Registration Books in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names the Registered Owner transferring or exchanging Bond shall designate, in accordance with the provisions of this Order.

(g) Payments to Cede & Co. Notwithstanding any other provision of this Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, and interest on such Bond and all notices with respect to such Bond shall be made and given, respectively, in the manner provided in the Letter of Representations of the District to DTC.

(h) Initial Bond. The Bonds herein authorized shall be initially issued as one fully registered Current Interest Bond and one or more Premium Compound Interest Bonds as provided in the Pricing Certificate. The Initial Bonds shall be registered in the name of the Underwriter or the designees thereof. The Initial Bonds shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller and delivered to the Underwriter. Immediately after the delivery of the Initial Bonds on the Issuance Date, the Paying Agent/Registrar shall cancel the Initial Bonds delivered hereunder and exchange therefor Bonds in the form of a separate single fully registered Bond for each of the maturities thereof registered in the name of Cede & Co., as nominee of DTC and except as provided in Section 3, all of the outstanding Bonds shall be registered in the name of Cede & Co., as nominee of DTC.

(i) DTC Blanket Letter of Representations. The District confirms execution of a Blanket Issuer Letter of Representations with DTC establishing the Book-Entry-Only System which will be utilized with respect to the Bonds.

Section 5. FORM OF BONDS. The form of the Bonds, including the form of Paying Agent/Registrar's Authentication Certificate, the form of Assignment and the form of Registration Certificate of the Comptroller to be attached to the Bond initially issued and delivered pursuant to this Order and the Pricing Certificate, shall be, respectively, substantially as follows, with such appropriate variations, omissions, or insertions as are permitted or required by this Order.

FORM OF BONDS

**UNITED STATES OF AMERICA
STATE OF TEXAS**

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
UNLIMITED TAX AND REVENUE REFUNDING BOND
SERIES _____***

[FORM OF FIRST PARAGRAPH OF CURRENT INTEREST BONDS]

NO. R-

**PRINCIPAL
AMOUNT
\$ _____**

<u>INTEREST RATE</u>	<u>DATE OF BONDS</u>	<u>MATURITY DATE</u>	<u>CUSIP NO.</u>
	_____, ____ *		

REGISTERED OWNER:

PRINCIPAL AMOUNT:

ON THE MATURITY DATE specified above, **NORTHTOWN MUNICIPAL UTILITY DISTRICT** (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "registered owner") the principal amount set forth above, and to pay interest thereon calculated on the basis of a

*To be completed as determined by the Pricing Officer in the Pricing Certificate. To the extent that the Pricing Certificate relating to the Bonds is inconsistent with any provisions in this Form of Bond or contains information to complete missing information in this Form of Bond, the language in the Pricing Certificate shall be used in the executed Bonds.

360 day year of twelve 30 day months, from _____*, payable on _____*, and semiannually on each _____* and _____* thereafter to the maturity date specified above, or the date of redemption prior to maturity, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond shall be paid to the registered owner hereof upon presentation and surrender of this Bond at maturity or upon the date fixed for its redemption prior to maturity at the designated office for payment of BOKF, NA dba Bank of Texas (the "Paying Agent/Registrar") in Austin, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the registered owner hereof on each interest payment date by check or draft, dated as of such interest payment date, drawn by the Paying Agent/Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Paying Agent/Registrar by United States mail, first-class postage prepaid, on or before each such interest payment date, to the registered owner hereof, at its address as it appeared at the close of business on the 15th calendar day of the month (whether or not a business day) preceding each such date (the "Record Date") on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. In addition, interest may be paid by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. In the event of a non-payment of interest on a scheduled payment date, and for 30 calendar 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 District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar 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 as it appears on the Registration Books at the close of business on the last business day next preceding the date of mailing of such notice.

* To be completed as determined by the Pricing Officer in the Pricing Certificate. To the extent that the Pricing Certificate relating to the Bonds is inconsistent with any provisions in this Form of Bond or contains information to complete missing information in this Form of Bond, the language in the Pricing Certificate shall be used in the executed Bonds.

DURING ANY PERIOD in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the City and the securities depository.

ANY ACCRUED INTEREST due at maturity or upon the redemption of this Bond prior to maturity as provided herein shall be paid to the registered owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the registered owner of this Bond that on or before each principal payment date, interest payment date, and any redemption date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

[FORM OF FIRST PARAGRAPHS OF PREMIUM COMPOUND INTEREST BOND]

NO. PC-

**MATURITY
AMOUNT**

\$ _____

INTEREST RATE ISSUANCE DATE DATE OF BONDS MATURITY DATE

_____*

REGISTERED OWNER:

MATURITY AMOUNT:

ON THE MATURITY DATE SPECIFIED ABOVE, NORTHTOWN MUNICIPAL UTILITY DISTRICT (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Maturity Amount set forth above, representing the principal amount hereof and accrued and compounded interest hereon. Interest shall accrue on the principal amount hereof

*To be completed as determined by the Pricing Officer in the Pricing Certificate. To the extent that the Pricing Certificate relating to the Bonds is inconsistent with any provisions in this Form of Bond or contains information to complete missing information in this Form of Bond, the language in the Pricing Certificate shall be used in the executed Bonds.

from the Issuance Date at the interest rate per annum specified above, calculated on the basis of a 360 day year comprised of twelve 30 day months, compounded semiannually on _____* and _____* of each year commencing _____, 20____*. For convenience of reference a table of the "Accreted Value" per \$5,000 Maturity Amount is printed on the reverse side of this Bond. The term "Accreted Value" as set forth in the table on the reverse side hereof shall mean the original principal amount plus initial premium per \$5,000 Maturity Amount compounded semiannually on _____ and _____ at the yield shown on such table.

THE MATURITY AMOUNT of this Bond is payable in lawful money of the United States of America, without exchange or collection charges. The Maturity Amount of this Bond shall be paid to the Registered Owner hereof upon presentation and surrender of this Bond at maturity, at the designated office for payment of BOKF, NA dba Bank of Texas which is the "Paying Agent/Registrar" for this Bond, and shall be drawn by the Paying Agent/Registrar on, and solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Paying Agent/Registrar for such purpose as hereinafter provided, payable to the Registered Owner hereof, as it appears on the Registration Books kept by the Paying Agent/Registrar, as hereinafter described. The District covenants with the Registered Owner of this Bond that on or before the Maturity Date for this Bond it will make available to the Paying Agent/Registrar, from the "Interest and Sinking Fund" created by the Bond Order, the amounts required to provide for the payment, in immediately available funds of the Maturity Amount, when due. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

[FORM OF REMAINDER OF EACH BOND]

IF THE DATE for any payment due on this Bond shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the office for payment of the Paying Agent/Registrar is located are authorized by law or executive order to close, or the United States Postal Service is not open for business, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, or the United States Postal Service is not open for business; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of a series of Bonds dated as of _____* and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of \$_____ [constituting \$_____ Current Interest Bonds and _____

*To be completed as determined by the Pricing Officer in the Pricing Certificate. To the extent that the Pricing Certificate relating to the Bonds is inconsistent with any provisions in this Form of Bond or contains information to complete missing information in this Form of Bond, the language in the Pricing Certificate shall be used in the executed Bonds.

\$ _____ Premium Compound Interest Bonds]** **FOR PURPOSES OF REFUNDING THE REFUNDED BONDS AND PAYING CERTAIN COSTS OF ISSUING THE BONDS.** Terms used herein and not otherwise defined shall have the meanings given in the Bond Order.

(Insert Redemption Provisions as provided in the Pricing Certificate)

ON _____ * OR ON ANY DATE THEREAFTER, the Current Interest Bonds maturing on and after _____ *, may be redeemed prior to their scheduled maturities, at the option of the District, with funds derived from any available and lawful source, at a redemption price equal to the principal amount to be redeemed plus accrued interest to the date fixed for redemption as a whole, or from time to time in part, and, if in part, the particular Current Interest Bonds, or portions thereof, to be redeemed shall be selected and designated by the District, and if less than all of a maturity is to be redeemed the Paying Agent/Registrar shall determine by lot the Current Interest Bonds, or portions thereof within such maturity to be redeemed (provided that a portion of a Current Interest Bond may be redeemed only in integral multiples of \$5,000 of principal amount). [The Premium Compound Interest Bonds are not subject to redemption prior to maturity]**

THE BONDS MATURING ON _____ *, _____ * AND _____ * (the "Term Bonds") are subject to mandatory sinking fund redemption by lot prior to maturity in the following amounts on the following dates and at a price of par plus accrued interest to the redemption date ("Term Bonds").

Term Bonds Maturing on _____

<u>Redemption Date</u>	<u>Principal Amount</u>
_____ *	\$ _____
_____ *	_____

*Final Maturity

Term Bonds Maturing on _____

<u>Redemption Date</u>	<u>Principal Amount</u>
_____ *	\$ _____
_____ *	_____

*Final Maturity

Term Bonds Maturing on _____

<u>Redemption Date</u>	<u>Principal Amount</u>
_____	_____

**To be included only if Current Interest Bonds and Premium Compound Interest Bonds are both issued and completed as determined in the Pricing Certificate.

*

*Final Maturity

THE PRINCIPAL AMOUNT of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Interest and Sinking Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

AT LEAST 30 calendar days prior to the date fixed for any redemption of Current Interest Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Registrar by United States mail, first-class postage prepaid, to the Registered Owner of each Current Interest Bond to be redeemed at its address as it appeared on the Register on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services. By the date fixed for any such redemption due provision shall be made with the Registrar for the payment of the required redemption price for the Current Interest Bonds or portions for which such payment is made, all as provided above. The Current Interest Bonds or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the Registered Owner to receive the redemption price from the Registrar out of the funds provided for such payment. If a portion of any Current Interest Bond shall be redeemed, a substitute Current Interest Bond or Bonds having the same maturity date, bearing interest at the same rate, in any authorized denomination or denominations, at the written request of the Registered Owner, and in aggregate principal amount equal to the unredeemed portion thereof, will be issued to the Registered Owner upon the surrender thereof for cancellation, at the expense of the District, all as provided in the Bond Order.

WITH RESPECT TO any optional redemption of the Current Interest Bonds, unless certain prerequisites to such redemption required by the Bond Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Current Interest Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice shall state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient moneys are not received, such notice shall be of no force and effect.

the District shall not redeem such Current Interest Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Current Interest Bonds have not been redeemed.

ALL BONDS OF THIS SERIES are issuable solely as fully registered Bonds, without interest coupons, in the denomination of any integral multiple of \$5,000 in the case of the Current Interest Bonds and integral multiple \$5,000 maturity amount in the case of Premium Compound Interest Bonds. As provided in the Bond Order, this Bond may, at the request of the registered owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate registered owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate registered owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Paying Agent/Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Paying Agent/Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Paying Agent/Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the registered owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Paying Agent/Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the registered owner. The Paying Agent/Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within forty-five (45) calendar days prior to its redemption date.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Paying Agent/Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the registered owners of the Bonds.

THE BONDS are payable from the proceeds of a tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bonds are further payable from the District's Net Revenues (as defined in the Bond Order), if any. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts, and to secure the Bonds and any other bonds of the District or such districts by a pledge of the net revenues of the consolidated system. The Bond Order further provides that the pledge of taxes and Net Revenues, if any, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or direct obligations of the United States or obligations unconditionally guaranteed by the United States in an amount sufficient to defease the Bonds is deposited with or made available to the Paying Agent/Registrar in accordance with the Bond Order or (ii) the City of Austin, Texas (the "City") dissolves the District, and assumes the obligations of the District pursuant to existing Texas law and the Consent Agreement between the District and the City.

THE BONDS are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due the other contractual obligations of the issuer payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Bond Order. The Bonds are further payable from the Net Revenues, if any, of the System. Reference is hereby made to the Bond Order for provisions with respect to the operation and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the registered owners of the Bonds. By acceptance of this Bond the registered owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

THE OBLIGATION to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the registered owner of this Bond.

THE DISTRICT RESERVES THE RIGHT to issue (i) additional bonds equally secured by a pledge of taxes and Net Revenues or from taxes only; (ii) bonds, notes, and other obligations of inferior liens; and (iii) revenue bonds, payable solely from contracts with other persons, including private corporations, municipalities, and political subdivisions to finance facilities needed in

performing any such contracts. Reference is made to the Bond Order for a complete description of the right to issue additional obligations.

TO THE EXTENT permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the registered owners of the Bonds may be modified with, in certain circumstances, the consent of the registered owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the registered owners of all of the Bonds affected, no such modification shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Paying Agent/Registrar.

IT IS HEREBY CERTIFIED, COVENANTED, AND REPRESENTED that all acts, conditions, and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form, and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and by the pledge of Net Revenues, if any, as described above; and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

IT IS FURTHER CERTIFIED that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

IN WITNESS WHEREOF, the District has caused this Bond to be signed with the manual or facsimile signature of the President or Vice-President of the Board of Directors of the District and countersigned with the manual or facsimile signature of the Secretary or Assistant Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

**NORTHTOWN MUNICIPAL
UTILITY DISTRICT**

Secretary [Assistant Secretary],
Board of Directors

President [Vice-President],
Board of Directors

(SEAL)

FORM OF PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

**(To be executed if this Bond is not accompanied by an
executed Registration Certificate of the Comptroller
of Public Accounts of the State of Texas)**

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds, or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated:

BOKF, NA dba Bank of Texas
Paying Agent/Registrar

By _____
Authorized Representative

FORM OF ASSIGNMENT:

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

Please insert Social Security or Taxpayer
Identification Number of Transferee

(Please print or typewrite name and address,
including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints
_____, attorney, to register the transfer of the within
Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by
an eligible guarantor institution participating
in a securities transfer association recognized
signature guarantee program.

NOTICE: The signature above must
correspond with the name of the registered
owner as it appears upon the front of this
Bond in every particular, without alteration or
enlargement or any change whatsoever.

**FORM OF REGISTRATION CERTIFICATE OF
THE COMPTROLLER OF PUBLIC ACCOUNTS**

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by
the Attorney General of the State of Texas, and that this Bond has been registered by the
Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

INSERTIONS FOR THE INITIAL BOND

1. The initial Current Interest Bond shall be in the form set forth in this Section, except that:

A. immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As shown below" and "CUSIP NO." shall be deleted.

B. the first paragraph shall be deleted and the following will be inserted:

"ON THE MATURITY DATE SPECIFIED BELOW, Northtown Municipal Utility District (the "District"), being a political subdivision, hereby promises to pay to the Registered Owner specified above, or registered assigns (hereinafter called the "Registered Owner"), on September 1 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
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(Information from Pricing Certificate to be inserted)

The District promises to pay interest on the unpaid principal amount hereof (calculated on the basis of a 360-day year of twelve 30-day months) from _____* at the respective Interest Rate per annum specified above. Interest is payable on _____* and semiannually on each _____* and _____* thereafter to the date of payment of the principal installment specified above; except, that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full."

C. The initial Bond for a Current Interest Bond shall be numbered "T-1."

2. The Initial Bond for Premium Compound Interest Bonds shall be numbered "TPC-1."

Section 6. SECURITY FOR THE BONDS. (a) Pledge and Levy of Taxes. For each year while any Bond is outstanding and the District remains in existence, the Board shall consider the taxable property in the District and determine the actual rate of the bond tax and/or the maintenance tax per \$100 valuation of taxable property which is to be levied in that year, and levy the bond tax and/or the maintenance tax against all taxable property in the District.

* To be completed as determined by the Pricing Officer in the Pricing Certificate. To the extent that the Pricing Certificate relating to the Bonds is inconsistent with any provisions in this Form of Bond or contains information to complete missing information in this Form of Bond, the language in the Pricing Certificate shall be used in the executed Bonds.

- (i) Annual Budget. Prior to determining the bond tax and/or maintenance tax to be levied for any calendar year, the Board shall adopt an annual budget for the District setting forth the estimated expenditures and disbursements of the District's receipts, revenues, and funds, the estimated receipts, revenues and funds and the sources thereof, and the District's debt service for the succeeding fiscal year. The budget shall be developed in accordance with generally accepted accounting procedures, and shall contain such budgetary items and provisions as may be reasonably necessary to reflect adequately the operations and activities of the District for the annual period covered by the budget. The board shall not determine the bond tax and/or maintenance tax to be levied for any calendar year until the Board has approved an annual budget for the expenditure and disbursement of the receipts, revenues and funds of the District.
- (ii) Establishment of District Interest and Sinking Fund and Levy of Bond Tax. A special fund or account, to be designated the Northtown Municipal Utility District Interest and Sinking Fund (the "Interest and Sinking Fund") is hereby created and shall be established and maintained by the District at its official depository bank. The Interest and Sinking Fund shall be kept separate and apart from all other funds and accounts of the District, and shall be used only for paying the principal, interest and redemption price of the Bonds. All taxes levied and collected for and on account of the Bonds shall be deposited, as collected, to the credit of the Interest and Sinking Fund. During each year while any of the Bonds are outstanding and unpaid, the District shall compute and ascertain the rate and amount of ad valorem tax, based on the latest approved tax rolls of the District, with full allowances being made for tax delinquencies and costs of tax collections, which will be sufficient to raise and produce the money required to make payment of the principal and interest on the Bonds. The rate and amount of ad valorem tax is hereby ordered to be levied and is hereby levied without limit as to rate or amount and is hereby levied without limit as to rate or amount against all taxable property in the District for each year while any of the Bonds are outstanding and unpaid, and such ad valorem tax shall be assessed and collected each such year and deposited to the credit of the Interest and Sinking Fund. In determining the rate of tax to be levied, assessed and collected, the District may take into account the amount of funds on hand in the Interest and Sinking Fund including the amounts therein from the deposit of Net Revenues. The ad valorem taxes and the Net Revenues are hereby irrevocably pledged to the payment of the principal of and interest on the Bonds as same become due.

(b) Pledge of Net Revenues. The District covenants and agrees that the Net Revenues, if any, are hereby pledged for payment of the Bonds. The revenues hereby pledged shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against any parties of any kind having a claim of any kind in tort, contract or otherwise against the District irrespective of whether such parties have notice thereof.

To the extent provided by law, such pledge of Net Revenues and taxes will terminate if the City takes over all properties and assets, assumes all debts, liabilities, and obligations, and performs all functions and services of the District, and the District is abolished pursuant to law and the Consent Agreement.

The laws of the State of Texas permit the District to be consolidated with one or more conservation and reclamation districts. In the event the District is consolidated with another district or districts, the District reserves the right to:

(i) Consolidate the System with a similar system of one or more districts with which the District is consolidating and operate and maintain the systems as one consolidated system (herein for purposes of this section the "Consolidated System").

(ii) Apply the net revenues from the operation of the Consolidated System to the payment of principal, interest, redemption price and bank charges on the revenue bonds or the combination tax and revenue bonds (herein for purposes of this section the "Revenue Bonds") of the District and of the district or districts with which the District is consolidating (herein collectively the "Consolidating Districts") without preference to any series of bonds (except subordinate lien revenue bonds which shall continue to be subordinate to the first lien Revenue Bonds of the Consolidating Districts).

(iii) Pledge the net revenues of the Consolidated System to the payment of principal, interest, redemption price and bank charges on Revenue Bonds which may be issued by the Consolidating Districts on a parity with the outstanding first lien Revenue Bonds of the Consolidating Districts.

(c) Perfection. Chapter 1208, Government Code, applies to the issuance of the Bonds and the pledge of taxes and revenues granted by the District under Section 7 of this Order, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of taxes and revenues granted by the District under Section 7 of this Order is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

Section 7. DEFEASANCE OF BONDS. (a) Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a "Defeased Bond") within the meaning of this Order, except to the extent provided in subsections (c) and (e) of this Section, when payment of the principal of such Bond, plus interest thereon to the due date or dates (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of

redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes or revenues herein levied and pledged as provided in this Order, and such principal and interest shall be payable solely from such money or Defeasance Securities.

(b) The deposit under clause (ii) of subsection (a) shall be deemed a payment of a Bond as aforesaid when proper notice of redemption of such Bonds shall have been given, in accordance with this Order. Any money so deposited with the Paying Agent/Registrar as provided in this Section may at the discretion of the Board of Directors also be invested in Defeasance Securities, maturing in the amounts and at the times as hereinbefore set forth, and all income from all Defeasance Securities in possession of the Paying Agent/Registrar pursuant to this Section which is not required for the payment of such Bond and premium, if any, and interest thereon with respect to which such money has been so deposited, shall be turned over to the Board of Directors.

(c) Notwithstanding any provision of any other Section of this Order which may be contrary to the provisions of this Section, all money or Defeasance Securities set aside and held in trust pursuant to the provisions of this Section for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Bonds shall have become due and payable, the Paying Agent/Registrar shall perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by this Order.

(d) Notwithstanding anything elsewhere in this Order, if money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar pursuant to this Section for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the provisions of this Section shall be made without the consent of the registered owner of each Bond affected thereby.

(e) Notwithstanding the provisions of subsection (a) immediately above, to the extent that, upon the defeasance of any Defeased Bond to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Bond for redemption in accordance with the provisions of the Order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions of subsection (a) immediately above with respect to such Defeased Bond as though it was being defeased at the

time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

Section 8. FUNDS, FLOW OF FUNDS, APPLICATION OF FUNDS AND INVESTMENTS.

(a) Designation of Funds. The following funds are hereby created or affirmed:

- (i) the Operating Fund;
- (ii) the Interest and Sinking Fund; and
- (iii) the Escrow Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Interest and Sinking Fund shall constitute a trust fund which shall be held in trust for the benefit of the owners of the Bonds. All other funds shall be used solely as provided in this Order.

(b) Operating Fund. The Operating Fund shall comprise the fund of the District for operating and maintaining the System and paying general and administrative expenses of the District. The District shall deposit to the credit of the Operating Fund all income or increment which may grow out of the ownership and operation of the System unless derived from contracts with other persons, including private corporations, municipalities, and political subdivisions which, under the terms of the authorizing orders, may be pledged for the requirements of the District's revenue bonds issued particularly to finance the facilities needed in performing any such contracts, and the District may deposit to the credit of the Operating Fund such other income or receipts of the District not otherwise required to be applied by this Order. The Operating Fund shall be used solely to (i) pay all reasonable expenses of the administration, efficient operation, and adequate maintenance of the System, (ii) transfer from time to time any excess to the credit of the Interest and Sinking Fund when needed to pay the obligations of the District payable therefrom, and (iii) to the extent the balance of the Interest and Sinking Fund and tax collections available for deposit thereto are sufficient to pay when due the obligations of the District payable from the Interest and Sinking Fund, to pay any other expense of the District.

(c) Escrow Fund. The proceeds from the sale of the Bonds after paying or making provisions for the payment of the costs in connection with issuing the Bonds, shall be deposited into the Escrow Fund as described in the Escrow Agreement in substantially the form attached hereto as Exhibit "B" with such changes as approved by the Pricing Officer.

(d) Interest and Sinking Fund. The Interest and Sinking Fund shall comprise the interest and sinking fund of the District. The District shall deposit to the credit of the Interest and Sinking Fund (i) accrued interest on the Bonds from their date to the date of their delivery, (ii) collections of District taxes or Net Revenues, if any, to the extent provided in Section 7(a) and 7(b) hereof, (iii)

capitalized interest on the Bonds, and (iv) amounts transferred from the Operating Fund to the extent provided in paragraph (b) of this Section 8. The Interest and Sinking Fund, including interest earnings or amounts deposited therein, shall be applied solely to pay the principal or redemption price of and interest on the Bonds when due, and the fees of the Paying Agent/Registrar.

(e) Investment of Funds. The Board may place money in any fund created by this Order in time or demand deposits or invest such moneys as authorized by law at the time of such deposit. The District hereby covenants that the proceeds of the sale of the Bonds will be used as soon as practicable for the purposes for which the Bonds are issued. Obligations purchased as an investment of money in any fund shall be deemed to be a part of such fund. Except as otherwise provided by law or by this Order, amounts received from the investment of any money in any fund created by this Bond Order, except the Interest and Sinking Fund and Escrow Fund which shall be applied as set forth in Section 8(c) and (d) above, may be placed into any fund of the District as determined by the Board.

(f) Security for Funds. All funds created by this Bond Order shall be secured in the manner and to the fullest extent required by law for the security of funds of the District.

Section 9. CUSTODY, APPROVAL, AND REGISTRATION OF BONDS; BOND COUNSEL'S OPINION; CUSIP NUMBERS AND CONTINGENT INSURANCE PROVISION, IF OBTAINED. The President of the Board of Directors of the District is hereby authorized to have control of the Bonds initially issued and delivered hereunder and all necessary records and proceedings pertaining to the Bonds pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller. Upon registration of the Bonds said Comptroller (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate attached to such Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on such Certificate. The approving legal opinion of the District's Bond Counsel and the assigned CUSIP numbers may, at the option of the District, be printed on the Bonds issued and delivered under this Order, but neither shall have any legal effect, and shall be solely for the convenience and information of the registered owners of the Bonds. In addition, if a Municipal Bond Insurance Policy is obtained, the Bonds may bear an appropriate legend as provided by the such bond insurer.

Section 10. COVENANTS REGARDING TAX EXEMPTION OF INTEREST ON THE BONDS. (a) The District covenants to take any action necessary to assure, or refrain from any action which would adversely affect, the treatment of the Bonds as obligations described in section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the District covenants as follows:

(1) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the Refunded Bonds or the projects financed or refinanced therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in section 141(b)(6) of the Code or, if more than 10 percent of the proceeds of the Bonds or the Refunded Bonds or the projects

financed or refinanced therewith are so used, such amounts, whether or not received by the District, with respect to such private business use, do not, under the terms of this Order or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of section 141(b)(2) of the Code;

(2) to take any action to assure that in the event that the "private business use" described in subsection (1) hereof exceeds 5 percent of the proceeds of the Bonds or the Refunded Bonds or the projects financed or refinanced therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of section 141(b)(3) of the Code, to the governmental use;

(3) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of section 141(c) of the Code;

(4) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of section 141(b) of the Code;

(5) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of section 149(b) of the Code;

(6) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property acquired with --

(A) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less or, in the case of a current refunding bond, for a period of 90 days and in the case of an advance refunding bond, for a period of 30 days,

(B) amounts invested in a bona fide debt service fund, within the meaning of section 1.148-1(b) of the Treasury Regulations, and

(C) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(7) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of section 148 of the Code (relating to arbitrage) and, to the extent applicable, section 149(d) of the Code (relating to advance refundings); and

(8) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the Bonds) an amount that is at least equal to 90 percent of the

"Excess Earnings," within the meaning of section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of Excess Earnings under section 148(f) of the Code; and

(b) Rebate Fund. In order to facilitate compliance with the above covenant (8), a "Rebate Fund" is hereby established by the District for the sole benefit of the United States of America, and such fund shall not be subject to the claim of any other person, including without limitation the bondholders. The Rebate Fund is established for the additional purpose of compliance with section 148 of the Code.

(c) Proceeds. The District understands that the term "proceeds" includes "disposition proceeds" as defined in the Treasury Regulations and, in the case of refunding bonds, transferred proceeds (if any) and proceeds of the refunded bonds expended prior to the date of issuance of the Bonds. It is the understanding of the District that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify or expand provisions of the Code, as applicable to the Bonds, the District will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of nationally recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the District agrees to comply with the additional requirements to the extent necessary, in the opinion of nationally recognized bond counsel, to preserve the exemption from federal income taxation of interest on the Bonds under section 103 of the Code. In furtherance of such intention, the District hereby authorizes and directs the President or Vice President of the Board of Directors to execute any documents, certificates or reports required by the Code and to make such elections, on behalf of the District, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

(d) Disposition of Project. The District covenants that the property constituting the projects financed or refinanced with the proceeds of the Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the District of cash or other compensation, unless the District obtains an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course shall not be treated as a transaction resulting in the receipt of cash or other compensation. For purposes hereof, the District shall not be obligated to comply with this covenant if it obtains an opinion that such failure to comply will not adversely affect the excludability for federal income tax purposes from gross income of the interest.

(e) Bank Qualified. The Pricing Officer is authorized to designate the Bonds as bank qualified obligations if the District qualifies to make such a designation at the time of pricing the Bonds. The bond purchase agreement is hereby approved in substantially the form used for the District's last refunding with such changes as approved by the Pricing Officer.

Section 11. SALE OF BONDS. The Bonds shall be sold and delivered, pursuant to a bond purchase agreement by and between the District and Underwriter at a price and under the terms set forth in the Pricing Certificate.

Section 12. GENERAL COVENANTS OF THE DISTRICT. The District covenants and represents that:

(1) It has lawful power to issue the Bonds and to pledge the Net Revenues and has lawfully exercised such power under the Constitution and laws of the State of Texas.

(2) The Bonds shall be ratably secured in such manner that no one Bond shall have preference over other Bonds.

(3) Except for the pledge to the payment of the Bonds and the Outstanding Bonds, the Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the District or of the System.

(4) It has obtained or will obtain and will comply with the terms and conditions of all franchises, permits, and authorizations and will maintain same in full force and effect.

(5) It will proceed to acquire and construct with all due diligence and dispatch so much of the System as shall have been financed with the proceeds of the Bonds.

(6) It will levy an ad valorem tax that will be sufficient to provide funds to pay the interest on the Bonds and to provide the necessary sinking fund, all as described in Section 6 of this Order.

(7) It shall keep accurate records and accounts and employ an independent certified public accountant to audit and report on its financial affairs at the close of each fiscal year. Such audits shall be in accordance with applicable law, rules, and regulations in effect from time to time, including particularly Section 50.371 et seq of the Texas Water Code, as amended, and the Water District Accounting Manual adopted by the Commission. A copy of such audit shall be filed in the office of the District and shall be open to inspection by any interested person during normal office hours. The District shall allow any holder or holders of not less than 25% in principal amount of the bonds then outstanding to inspect the System and all records, accounts, and data of the District relating thereto at all reasonable times and shall furnish a copy of such audit report to any such holder or holders upon request upon payment to the District of the charge therefor as prescribed by law.

(8) The President, the Vice President, the Secretary, and all other officers of the Board from time to time, or any of them, are hereby authorized and directed to do any and all things required for the construction of the System and are further authorized and directed to

make money of the District available for the payment of the Bonds in the manner provided by law and herein.

(9) So long as any of the Bonds or the Additional Bonds remain outstanding, the District covenants that it will at all times maintain the System or within the limits of its authority cause the same to be maintained, in good condition and working order and will operate the same, or cause the same to be operated, in an efficient and economical manner at a reasonable cost and in accordance with sound management principles. In operating and maintaining the System, the District will comply with all contractual provisions and agreements entered into by it and with all valid rules, regulations, directions or orders of any governmental, administrative or judicial body having jurisdiction over the District.

Section 13. REMEDIES OF REGISTERED OWNERS. In addition to all rights and remedies of any registered owner of the Bonds provided by the laws of the State of Texas the District and the Board covenant and agree that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make the payments required by this Order to be made into the Interest and Sinking Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in this Order, the registered owner of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Board and other officers of the District to observe and perform any covenant, obligation, or condition prescribed in this Order. No delay or omission by any registered owner upon default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The specific remedies mentioned in this Order shall be available to the registered owners of the Bonds as provided herein and shall be cumulative of all other lasting remedies.

Section 14. ADDITIONAL BONDS, SPECIAL PROJECT BONDS AND REFUNDING BONDS. (a) Additional Bonds, Inferior Obligations and Refunding Bonds. The District expressly reserves the right to issue in one or more installments or issues, additional bonds heretofore voted but unissued and bonds hereafter voted and payable from a lien on and pledge of taxes and revenues on a parity with and of equal dignity with the pledge for the Bonds; and bonds, notes and other obligations of inferior liens. This District further reserves the right to issue refunding bonds, notes or other obligations in any manner permitted by law to refund any Bonds, Additional Bonds, bonds, notes or other obligations at or prior to their respective dates of maturity or redemption.

(b) Special Project Bonds. The District further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under 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 to refund such bonds.

Section 15. APPROVAL OF OFFERING DOCUMENTS, PAYING AGENT/REGISTRAR AGREEMENT AND ESCROW AGREEMENT. The Pricing Officer is hereby authorized to approve the Preliminary Official Statement and the Official Statement relating to the Bonds and any addenda, supplement or amendment thereto, and to deem such document final in accordance with Rule 15c2-12, the Board further approves the distribution of such Official Statement in the reoffering of the Bonds by the Underwriter in final form, with such changes therein or additions thereto as the Pricing Officer executing the same may deem advisable, such determination to be conclusively evidenced by his execution thereof.

The Paying Agent/Registrar Agreement by and between the District and BOKF, NA dba Bank of Texas ("Paying Agent Agreement") in substantially the form and substance attached hereto as Exhibit "A" is hereby approved and the Pricing Officer is hereby authorized and directed to complete, amend, modify and execute the Paying Agent Agreement, as necessary.

The Escrow Agreement by and between the District and BOKF, NA dba Bank of Texas as Escrow Agent ("Escrow Agreement") in substantially the form and substance attached hereto as Exhibit "B" is hereby approved, and the Pricing Officer is hereby authorized to complete, amend, modify and execute the Escrow Agreement, as necessary.

The President, Vice President, Treasurer, the Secretary or Assistant Secretary are each hereby authorized to take such action as may be necessary to cause the purchase and delivery of the federal securities to be acquired and deposited to the credit of the escrow fund created by the Escrow Agreement.

Section 16. DAMAGED, MUTILATED, LOST, STOLEN OR DESTROYED BONDS.
(a) Replacement Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

(b) Application for Replacement Bonds. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made by the registered owner thereof to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the registered owner applying for a replacement bond shall furnish to the District and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the registered owner shall furnish to the District and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond. In every case of damage or mutilation of a Bond, the registered owner shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

(c) No Default Occurred. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of or interest on the Bond, the District may authorize the payment of the

same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

(d) Charge for Issuing Replacement Bonds. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the registered owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the District whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Order equally and proportionately with any and all other Bonds duly issued under this Order.

(e) Authority for Issuing Replacement Bonds. In accordance with Subchapter B of Texas Government Code, Chapter 1206, this Section of this Order shall constitute authority for the issuance of any such replacement Bond without necessity of further action by the governing body of the District or any other body or person, and the duty of the replacement of such Bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such Bonds in the form and manner and with the effect, as provided in Section 5(a) of this Order for Bonds issued in conversion and exchange for other Bonds.

Section 17. ORDER A CONTRACT, AMENDMENTS. The District acknowledges that the covenants and obligations of the District herein contained are a material inducement to the purchase of the Bonds. This Order shall constitute a contract with the holders of the Bonds from time to time, binding on the District and its successors and assigns, and shall not be amended or repealed by the District so long as any Bond remains outstanding except as permitted in this Section. The District may, without the consent of or notice to any holders of Bonds, from time to time and at any time amend this Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District may, with the written consent (expressed as provided herein) of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of this Order; provided that, without the consent of the holders of all of the Bonds affected, no such amendment addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, change the place or places, or the coin or currency in which, any Bond or the interest thereon is payable or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. Whenever the District shall desire to make any amendment or addition to or rescission of this Order requiring the consent of holders of the Bonds, the District shall cause notice of the amendment, addition, or rescission to be published at least once a week for two consecutive weeks in a newspaper or financial journal of general circulation in the City of Austin, Texas, the first of each such publications being at least 30 days prior to the date of adoption of such amendment, addition, or rescission. If, because of temporary or permanent suspension of publication or general circulation of such newspapers or journals, it is impossible or impracticable to publish such notice in

the manner provided herein, then such publication in lieu thereof as the District shall deem satisfactory shall constitute sufficient publication of such notice. Whenever, at any time within one year after the date of the first publication of such notice, the District shall receive an instrument or instruments in writing executed by the holders of a majority in aggregate principal amount of the Bonds then outstanding affected by any such amendment, addition, or rescission requiring the consent of holders of Bonds, which instrument or instruments shall refer to the proposed amendment, addition, or rescission described in such notice and shall specifically consent to and approve the adoption thereof in substantially the form of the copy thereof referred to in such notice, thereupon, but not otherwise, the District may adopt such amendment addition, or rescission in substantially such form, except as herein provided. No holder of Bonds may thereafter object to the adoption of such amendment, addition, or rescission, or to any of the provisions thereof, and such amendment, addition, or rescission shall be fully effective for all purposes.

Section 18. PARTIES INTEREST HEREIN. Nothing in this Order, expressed or implied, is intended or shall be construed to confer upon, or to give to, any person or entity, other than the District, the Bond Insurer and the registered owners of the Bonds, any right, remedy or claim under or by reason of this Order or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises and agreements in this Order contained by and on behalf of the District shall be for the sole and exclusive benefit of the District and the registered owners of the Bonds.

Section 19. OPEN MEETING. It is hereby officially found and determined that the meeting at which this Order is adopted, was open to the public, and public notice of the time, place, and purpose of said meeting was given, all as required by Chapter 551, Government Code, as amended and Section 49.064, Texas Water Code, as amended.

Section 20. REFUNDING OF REFUNDED BONDS. That concurrently with the delivery of the Bonds, the Pricing Officer shall cause to be deposited an amount from the proceeds of the sale of the Bonds with the Escrow Agent sufficient, together with other legally available funds of the District, if any, to provide for the refunding and defeasance of the Refunded Bonds, which are hereby called for redemption on the date determined by the Pricing Officer in the Pricing Certificate. The Pricing Officer is further authorized and directed to apply and there is hereby appropriated such moneys of the District as are necessary to fund the Escrow Fund to be established by the Escrow Agreement with amounts sufficient to provide for the defeasance of the Refunded Bonds on the date of delivery of the Bonds. The Pricing Officer is hereby authorized and directed to issue to the Escrow Agent the Notices of Redemption with respect to the Refunded Bonds in substantially the form set forth in Exhibit "C" hereto with such changes and additions as necessary to conform to the Pricing Certificate.

Section 21. AMENDMENTS. (a) Amendment with Consent of Owners of 51% of Bonds. The owners of 51% in aggregate principal amount of then outstanding Bonds shall have the right from time to time to approve any amendment to this Bond Order which may be deemed necessary or desirable by the District; provided however, that, other than as permitted by subsection (f) of this Section 21, nothing herein contained shall permit or be construed to permit the amendment, without

the consent of the owner of each of the outstanding Bonds affected thereby, of the terms and conditions of this Bond Order or the Bonds so as to:

- (1) change debt service requirements, interest payment dates or the maturity or maturities of the outstanding Bonds;
- (2) reduce the rate of interest borne by any of the outstanding Bonds;
- (3) reduce the amount of the principal of, redemption premium, if any, or interest on the outstanding Bonds or impose any conditions with respect to such payments;
- (4) modify the terms of payment of principal of, redemption premium, if any, or interest on the outstanding Bonds, or impose any conditions with respect to such payments;
- (5) affect the right of the Registered Owners of less than all of the Bonds then outstanding;
or
- (6) decrease the minimum percentage of the principal amount of Bonds necessary for consent to any such amendment.

(b) Notice of Amendment. If at any time the District shall desire to amend this Bond Order it may cause a written notice of the proposed amendment to be published at least once on a business day in a financial newspaper, journal, or publication of general circulation in the City of New York, New York, or in the State of Texas. If, because of temporary or permanent suspension of the publication or general circulation of all such newspapers, journals, or publications, it is impossible or impractical to publish such notice in the manner provided herein, then such publication in lieu thereof as shall be made by the Registrar shall constitute a sufficient publication of notice. In addition to such publication, the Registrar shall cause a written notice of the proposed amendment to be given by registered or certified mail to Registered Owners of the Bonds as shown on the Registration Books maintained by the Registrar; provided, however, that failure to receive such written notice of the proposed amendment, or any defect therein or in the mailing thereof, shall not affect the validity of any proceeding in connection with, or the adoption of, such amendment. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of the Registrar for inspection by all Registered Owners of Bonds.

(c) Consent to Amendment. Whenever at any time not less than 30 days, and within one year, from the date of the first publication of said notice or other services of written notice the District shall receive an instrument or instruments executed by the Registered Owners of at least 51% in aggregate principal amount of all Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and shall specifically consent to and approve such amendment, the District may adopt the amendatory resolution or order in substantially the same form.

(d) Effect of Amendment. Upon the adoption of any amendatory resolution or order pursuant to the provisions of this Section, this Bond Order shall be deemed to be amended in

accordance with such amendatory resolution or order, and the respective rights, duties, and obligations under such amendatory resolution or order of all the Registered Owners shall thereafter be determined and exercised subject in all respects to such amendments.

(c) Consent of Registered Owners. Any consent given by a Registered Owners pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the Bonds during such period. Such consent may be revoked by the Registered Owner who gave such consent at any time after six months from the date of the first giving of such notice, or by a successor in title, by filing notice thereof with the Registrar and the District, but such revocation shall not be effective if the Registered Owners of 51% in aggregate principal amount of the then outstanding Bonds have, prior to the attempted revocation, consented to and approved the amendment.

(f) Amendments Without Consent. Notwithstanding the provisions of (a) through (f) of this Section, and without notice of the proposed amendment and without the consent of the Registered Owners. The District may, at any time, amend this Bond Order to cure any ambiguity or to cure, correct, or supplement any defective or inconsistent provision contained therein, or to make any other change that does not in any respect materially and adversely affect the interest of the Registered Owners, provided that no such amendment shall be made contrary to the provision to Section 21(a), and a duly certified or executed copy of each such amendment shall be filed with the Registrar.

Section 22. DISTRICT'S SUCCESSORS AND ASSIGNS. Whenever in this Bond Order the District is named and referred to, it shall be deemed to include its successors and assigns, and all covenants and agreements in this Bond Order by or on behalf of the District, except as otherwise provided herein, shall bind and inure to the benefit of its successors and assigns whether or not so expressed.

Section 23. NO RECOURSE AGAINST DISTRICT OFFICERS OR DIRECTORS. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on this Bond Order against any officer or director of the District or any person executing the Bonds.

Section 24. PAYING AGENT/REGISTRAR. The Paying Agent/Registrar shall act as agent for the payment of principal of and interest on the Bonds and shall maintain the Register for the Bonds, all in accordance with the terms of this Bond Order. If the Paying Agent/Registrar or its successor becomes unable for any reason to act as Paying Agent/Registrar hereunder, or if the Board of Directors of the District determines that a successor Paying Agent/Registrar should be appointed, a successor Paying Agent/Registrar shall be selected by the District. Any successor Paying Agent/Registrar shall be either a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Section 25. PAYING AGENT/REGISTRAR MAY OWN BONDS. The Paying Agent/Registrar, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not Registrar.

Section 26. BENEFITS OF ORDER PROVISIONS. Nothing in this Bond Order or in the Bonds, expressed or implied, shall give or be construed to give any person, firm, or corporation, other than the District, the Registrar, and the Registered Owners, any legal or equitable right or claim under or in respect of this Bond Order, or under any covenant, condition, or provision herein contained, all the covenants, conditions, and provisions contained in this Bond Order or in the Bonds being for the sole benefit of the District, the Registrar, and the Registered Owners.

Section 27. UNAVAILABILITY OF AUTHORIZED PUBLICATION. If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Bond Order shall be given in such other manner and at such time or times as in the judgment of the District shall most effectively approximate such required publication, and the giving of such notice in such manner shall for all purposes of this Bond Order be deemed to be in compliance with the requirements for publication thereof.

Section 28. SEVERABILITY CLAUSE. If any word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order, or the application thereof to any person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Bond Order and the application of such word, phrase, clause, sentence, paragraph, section, or other part of this Bond Order to any other persons or circumstances shall not be affected thereby.

Section 29. FURTHER PROCEEDINGS. The President and Secretary of the Board of Directors and other appropriate officials of the District are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Bond Order.

Section 30. PAYMENT OF ATTORNEY GENERAL FEE. The District hereby authorizes the disbursement of a fee equal to the lesser of (i) one-tenth of one percent of the principal amount of the Bonds or (ii) \$9,500, provided that such fee shall not be less than \$750, to the Attorney General of Texas Public Finance Division for payment of the examination fee charged by the State of Texas for the Attorney General's review and approval of public securities and credit agreements, as required by Section 1202.004 of the Texas Government Code. The appropriate member of the District's staff is hereby instructed to take the necessary measures to make this payment. The District is also authorized to reimburse the appropriate District funds for such payment from proceeds of the Bonds.

Section 31. CONTINUING DISCLOSURE UNDERTAKING. (a) Annual Reports. The District shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, within six months after the end of any fiscal year, financial information and operating data

with respect to the District of the general type included in the final Official Statement authorized by Section 15 of this Order, being the information designated by the Pricing Officer in the Pricing Certificate. Any financial statements to be so provided shall be (1) prepared in accordance with the accounting principles described in Exhibit "C" hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements within such period, and audited financial statements for the applicable fiscal year to the MSRB, when and if the audit report on such statements become available.

If the District changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet web site or filed with the SEC. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information as prescribed by the MSRB.

(b) Event Notices. The District shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, of any of the following events with respect to the Bonds:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults, if material within the meaning of the federal securities laws;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties;
- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701BTEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of holders of the Bonds, if material within the meaning of the federal securities laws;

- H. Bond calls, if material within the meaning of the federal securities laws, and tender offers;
- I. Defcassances;
- J. Release, substitution, or sale of property securing repayment of the Bonds, if material within the meaning of the federal securities laws;
- K. Rating changes;
- L. Bankruptcy, insolvency, receivership or similar event of the District;
- M. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material within the meaning of the federal securities laws; and
- N. Appointment of a successor or additional trustee or the change of name of a trustee, if material within the meaning of the federal securities laws.

The District shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with subsection (a) of this Section by the time required by such subsection. All documents provided to the MSRB pursuant to this Section shall be accompanied by identifying information as prescribed by the MSRB.

(c) Limitations, Disclaimers, and Amendments. The District shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give notice of any deposit made in accordance with Section 13.01 of this Order that causes the Bonds no longer to be outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The District does

not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY CERTIFICATE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Section shall comprise a breach of or default under this Order for purposes of any other provision of this Order.

Should the Rule be amended to obligate the District to make filings with or provide notices to entities other than the MSRB, the District hereby agrees to undertake such obligation with respect to the Bonds in accordance with the Rule as amended.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

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

Section 32. OTHER ACTIONS. The President, Vice President or Treasurer and Secretary of the Board of Directors of the District, and all other officers, employees and agents of the District,

and each of them, shall be and they are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the District all instruments as may be necessary or desirable in order to carry out the terms and provisions of this Bond Order, the Bonds, the initial sale and delivery of the Bonds, the Paying Agent/Registrar Agreement, any insurance commitment letter or insurance policy and the Official Statement. In addition, prior to the initial delivery of the Bonds, President, Vice President or Treasurer and Secretary of the Board of Directors of the District, the District's attorney and bond counsel are hereby authorized and directed to approve any technical changes or corrections to this Order or to any of the instruments authorized and approved by this Order necessary in order to (i) correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance and as described in the Official Statement, (ii) obtain a rating from any of the national bond rating agencies or satisfy requirements of the Bond Insurer, or (iii) obtain the approval of the Bonds by the Texas Attorney General's office.

Section 33. ADDITIONAL BOND INSURANCE PROVISIONS. Bond Counsel is authorized to insert any necessary provisions required by the Bond Insurer and agreed to by the District in the Pricing Certificate executed by the Pricing Officer.

EXHIBIT "A"

PAYING AGENT/REGISTRAR AGREEMENT

EXHIBIT "B"
ESCROW AGREEMENT

4 1 1 6

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

Northtown Municipal Utility District

EXHIBIT "D"

CONTINUING DISCLOSURE UNDERTAKING

Accounting Principles

The accounting and reporting policies of the District relating to the funds and account groups will conform to generally accepted accounting principles (GAAP) as applied to governmental entities.

EXHIBIT 2

PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 28, 2012

NEW ISSUE-BOOK-ENTRY-ONLY

Moody's Ratings: **Insured "Aa3" (on review for possible downgrade)**; Underlying " **"**"
See "MUNICIPAL BOND RATINGS" AND "BOND INSURANCE" herein.

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

THE DISTRICT EXPECTS TO DESIGNATE THE BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS." See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.

\$3,890,000*

NORTHTOWN MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas Located in Travis County, Texas)
UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2012

Dated Date: June 1, 2012

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

Interest on the Bonds maturing on September 1, 2015 (the "Capital Appreciation Bonds") will accrete from the date of delivery, will be compounded March 1 and September 1 of each year, commencing September 1, 2012, and will be payable only upon maturity. See "APPENDIX B – Schedule of Accreted Values." Interest on the Bonds maturing on September 1 in each of the years 2012 through 2014 and 2016 through 2028 (the "Current Interest Bonds") will accrue from the Dated Date, and will be payable March 1 and September 1 of each year, commencing September 1, 2012. The Current Interest Bonds and the Capital Appreciation Bonds are collectively referred to herein as the "Bonds." The definitive Bonds will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), 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 Current Interest Bonds and maturity value of the Capital Appreciation Bonds will be payable by the paying agent/registrars to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent/Registrar"). The Bonds will be issued only in fully registered form. The Current Interest Bonds will be issued in the denomination of \$5,000 of principal amount or integral multiples thereof, and the Capital Appreciation Bonds will be issued in amounts which mature in \$5,000 denominations, or integral multiples thereof, including both principal and interest. See "APPENDIX B - Schedule of Accreted Values."

The Bonds are being issued to: (i) refund a portion of the District's outstanding Unlimited Tax and Revenue Refunding Bonds, Series 2004 and Unlimited Tax and Revenue Bonds, Series 2006 to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING." The Current Interest Bonds maturing on and after September 1, 2020, are subject to redemption prior to maturity at the option of the District in whole or from time to time in part on September 1, 2019 or any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Capital Appreciation Bonds are not subject to redemption prior to their stated maturity.

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** See "BOND INSURANCE."



MATURITY SCHEDULE
(see inside cover page)

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, subject to the approval 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 LLP, Austin, Texas. The Bonds in definitive form are expected to be available for delivery through DTC, on June 5, 2012.

* Preliminary; subject to change.

UNDERWRITERS

MATURITIES
\$3,810,000*
Current Interest Bonds
(Due September 1)

Due	Principal Amount	Interest Rate	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)	Due	Principal Amount	Interest Rate	Initial Reoffering Yield ^(b)	CUSIP Number ^(c)
2012	\$ 45,000	_____ %	_____ %	_____	2021 ^(a)	\$ 230,000	_____ %	_____ %	_____
2013	25,000	_____ %	_____ %	_____	2022 ^(a)	255,000	_____ %	_____ %	_____
2014	25,000	_____ %	_____ %	_____	2023 ^(a)	250,000	_____ %	_____ %	_____
2016	410,000	_____ %	_____ %	_____	2024 ^(a)	275,000	_____ %	_____ %	_____
2017	315,000	_____ %	_____ %	_____	2025 ^(a)	270,000	_____ %	_____ %	_____
2018	340,000	_____ %	_____ %	_____	2026 ^(a)	295,000	_____ %	_____ %	_____
2019	210,000	_____ %	_____ %	_____	2027 ^(a)	320,000	_____ %	_____ %	_____
2020 ^(a)	230,000	_____ %	_____ %	_____	2028 ^(a)	315,000	_____ %	_____ %	_____

(Accrued Interest from June 1, 2012 to be added)

- (a) Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2020, in whole or from time to time in part, on September 1, 2019, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds may also be subject to mandatory sinking fund redemption if certain maturities of the Bonds are designated as term Bonds by the underwriters shown on the cover page (the "Underwriters"). See "THE BONDS – Redemption."
- (b) The initial reoffering yields indicated represent the lower of the yields resulting when priced to maturity or the first redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriters. The yields may be changed at any time at the discretion of the Underwriters. Accrued interest from June 1, 2012 to the date of delivery of the Bonds to the Underwriters will be added to the purchase price.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

\$80,000*
Premium Capital Appreciation Bonds
(Due September 1)

Due	Initial Offering Price	Original Principal Amount	Purchase Price Per \$5,000 at Maturity	Initial Reoffering Yield ^(a)	Total Payment at Maturity ^(b)	CUSIP Number ^(c)
2015		\$ 80,000		_____ %		

(Interest accretes from date of delivery)

- (a) The initial reoffering yields on the Bonds are established by, and are the sole responsibility of, the Underwriters, and may subsequently be changed. Initial reoffering yields represent the initial offering price to the public of a substantial amount of the Bonds of each maturity which may be changed for subsequent purchasers.
- (b) The Capital Appreciation Bonds are not subject to redemption prior to their stated maturity. See "THE BONDS – Redemption Provisions." Interest is compounded semiannually on each March 1 and September 1, commencing September 1, 2012 and payable only at stated maturity.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

* Preliminary; subject to change.

ASSURED GUARANTY MUNICIPAL CORP. ("AGM") MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AGM SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING "BOND INSURANCE" AND "APPENDIX D - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), this document constitutes a preliminary official statement of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of the information permitted by the Rule.

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

This Official Statement does not alone constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, contracts, records, and engineering and other related reports set forth in the 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 the District's General Counsel, for further information.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions, or matters of opinion, or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or the other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the Official Statement until delivery of the Bonds to the Underwriters and thereafter only as specified in "CONTINUING DISCLOSURE OF INFORMATION."

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

SALE AND DISTRIBUTION OF THE BONDS

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

MUNICIPAL BOND RATINGS

Moody's Investors Service, Inc. ("Moody's") is expected to assign a rating of "Aa3" (on review for possible downgrade) to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "A" to the Bonds.

An explanation of the significance of a rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such company, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

BOND INSURANCE

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OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

The District Northtown Municipal Utility District (the "District") is a political subdivision of the State of Texas created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on August 14, 1985 and confirmed at an election held within the District on December 21, 1985, which operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District was created to provide water, wastewater and storm drainage to the approximately 1,224.34 acres within its boundaries, all of which lie within Travis County, Texas. See "THE DISTRICT - Location."

Location The District is located in Travis County, approximately 15 miles northeast of Austin's central business district. The District lies wholly within the extraterritorial jurisdiction of the City of Austin and is situated adjacent to the city limits of the City of Pflugerville. Of the approximately 1,224.34 acres within the District, approximately 997.33 acres are currently developable. Access to the District is provided by Interstate Highway 35 and Farm to Market Road 1825. See "THE DISTRICT - Location."

The Developers and Land

Owners Continental Homes of Texas, L.P., which is owned by D.R. Horton, Inc. ("Horton") developed approximately 234.48 acres as Gaston Sheldon (959 single family lots), approximately 48.63 acres as Brookfield Estates I (182 single family lots), approximately 62.25 acres as Brookfield Estates II (319 single family lots), approximately 19.77 acres as Parkside at Northtown (144 multi-family units) and approximately 22.29 acres as Parkway at Northtown (11 single family lots and 86 multi-family units).

KB Home Lone Star L.P. ("KB") developed Northtown Park Section 8 (8.19 acres, 57 single family lots). KB subsequently purchased approximately 79.98 acres developed or being developed as The Lakes at Northtown, expected to ultimately contain a total of 310 single family lots, of which 273 will be located in the District. As of April 1, 2012, The Lakes at Northtown consisted of: Section 1 (22.21 acres; 69 single family lots, of which 53 are located within the District), Section 2 (18.32 acres; 62 single family lots), Section 3 (9.38 acres; 50 single family lots) and Section 4 (12.93 acres; 64 total single family lots, of which 62 are located within the District). According to KB, construction of Section 5 (17.15 acres, 61 total single family lots, of which 45 are located within the District) is expected to begin in May 2012 and is expected to be completed in September 2012.

The Morgan Group ("Morgan") developed approximately 16.35 acres as the Villas at Techridge apartments (350 multi-family units).

Village @ Northtown Ltd. ("Village") owns approximately 327 acres within the District, of which approximately 272 acres are developable. Village has informed the District that it intends to develop the approximately 272 acres as a mixed use development including detached single family residential, attached single family residential, multifamily residential, office, retail and commercial uses. Pursuant to an agreement with Travis County, Village has caused the construction of the extensions of two arterial roadways, Wells Branch Parkway and Heatherwilde Boulevard, through the District, together with certain associated utility mains and stormwater detention facilities. These improvements, which are now complete, were necessary for development of the Village tracts. In 2009, the City of Austin and Travis County approved (i) a preliminary subdivision plan of the entire Village property, and (ii) the final subdivision plat of Village at Northtown, Section One, consisting of nine

(9) retail lots and one (1) multifamily residential lot collectively covering 35.03 acres. In October 2010, an approximate 12.53 acre parcel at the intersection of the proposed extension of Harris Ridge Blvd. and the proposed John Henry Faulk Dr. was sold to the Pflugerville Independent School District ("Pflugerville ISD") for a new elementary school site. A revision to the District's land use plan to designate this parcel for school use has been approved by the District and the City of Austin. Construction on the streets, utility and drainage facilities necessary to serve the school site is substantially complete. The elementary school is expected to open in August 2012. Revisions to the approved preliminary subdivision plan pertaining to approximately 18.75 acres of land for detached single family residential and attached single family residential development across Harris Ridge Blvd. from the new school site were approved in December 2011. Final platting of this area is contemplated in the near future, but no single family home construction on the Village property has yet commenced.

Techridge Spectrum BC L.P. ("Techridge") owns approximately 11.60 acres within the boundaries of the District. All of this property was originally developed by NWC Howard & I-35 Ltd. ("NWC") with utility facilities and storm drainage. According to Techridge, it has plans to construct an apartment complex called Oaks at Techridge, containing a total of 336 units. Construction began in September 2011 and is expected to be completed in March 2013.

Status of Development The District contains approximately 997.33 net developable acres, of which approximately 759.18 acres have been developed with utility facilities as eleven residential subdivisions containing a total of 2,895 platted single family lots as of April 1, 2012. See "THE DISTRICT –Status of Development." As of the same date, the District contained a total of 2,756 completed single family homes, 11 homes under construction and 128 vacant but developed single family lots.

Builders As of April, 2012, there is one active homebuilder in the District: KB. According to KB, it has constructed a total of 184 homes in The Lakes at Northtown. See "THE DISTRICT –Status of Development." KB has stated that the average price of a completed home in The Lakes at Northtown is \$188,000 and that it is currently constructing homes that range in price approximately from \$152,950 to \$231,950 and range in square footage approximately from 1,376 to 3,728.

THE BONDS

Description The Current Interest Bonds are serial bonds in the aggregate principal amount of \$3,810,000* maturing annually in varying amounts on September 1 of each of the years 2012 through 2014 and 2016 through 2028. Interest accrues on the Current Interest Bonds from June 1, 2012 at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2012 and each March 1 and September 1 thereafter until maturity. The Capital Appreciation Bonds will be issued in the original principal amount of \$80,000* and will mature together with interest accreted from initial delivery on September 1, 2015. Interest on the Capital Appreciation Bonds accretes from the date of delivery at the rate per annum set forth on the inside cover page hereof and compounds each March 1 and September 1 commencing September 1, 2012 until maturity. The Current Interest Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity, and the Capital Appreciation Bonds are offered in fully registered form in denominations which result in total amounts due at maturity in integral multiples of \$5,000. See "THE BONDS - General Description."

*Preliminary; subject to change.

Redemption	Bonds maturing on and after September 1, 2020 are subject to redemption in whole or from time to time in part at the option of the District on September 1, 2019, or any date thereafter, in integral multiples of \$5,000 at par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds if designated as Term Bonds may also be subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
Source of Payment	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See "TAXING PROCEDURES." The Bonds are further payable from and are secured by a pledge of certain net revenues (described herein), if any, the District receives in connection with the water, sanitary wastewater and drainage system (the "System") within the District, unless and until such pledge and lien are terminated as described herein (see "THE BONDS - Source of and Security for Payment"). It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District's debt service requirements. The Bonds are obligations solely of the District and are not obligations of the City of Austin, Texas; Travis County, Texas; the State of Texas; or any entity other than the District. See "THE BONDS - Source of and Security for Payment."
Payment Record	<p>The District has previously issued nine installments of unlimited tax and revenue new money bonds to acquire or construct utility facilities in the aggregate principal amount of \$34,230,000. Additionally, the District has heretofore issued two series of refunding bonds in the original aggregate principal amount of \$8,399,999.70. After the issuance of the Bonds, the District will have outstanding new money bonds in the aggregate principal amount of \$17,830,000 and outstanding refunding bonds in the aggregate principal amount of \$10,475,000* for a combined outstanding debt in the aggregate principal amount of \$28,305,000* (the "Outstanding Bonds"). See "FINANCIAL STATEMENT – Outstanding Bonds."</p> <p>The District has not defaulted in the payment of the principal and interest on the Outstanding Bonds. The District has utilized bond proceeds to capitalize interest from one to two years in connection with the new money Outstanding Bonds. See "FINANCIAL STATEMENT - Outstanding Bonds."</p>
Authority for Issuance.....	The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including Chapter 1207 of the Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, and an order adopted by the Board of Directors of the District and a pricing certificate executed by the pricing officer as designated in the order (the order and pricing certificate are collectively referred to herein as the "Bond Order.") See "THE BONDS - Authority for Issuance."
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to: (i) establish an escrow fund to refund a portion of the District's Unlimited Tax and Revenue Refunding Bonds, Series 2004 and Unlimited Tax and Revenue Bonds, Series 2006 to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING – The Refunded Bonds," and "– Estimated Sources and Uses Of Funds."

*Preliminary; subject to change.

Bonds Authorized But

Unissued..... At an election held within the District on December 21, 1985, voters within the District authorized a total of \$69,443,000 in bonds for water, wastewater, and drainage facilities. To date, the District has issued nine installments of bonds to acquire utility facilities in the aggregate principal amount of \$34,230,000, and \$35,213,000 in bonds remain authorized but unissued. See "FINANCIAL STATEMENT – Unlimited Tax and Revenue Bonds Authorized but Unissued", "Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt." In addition, District voters authorized the issuance of \$97,670,000 in Contract Bonds, none of which have been issued and none of which are currently expected to be issued in the future. See "THE DISTRICT – City of Austin Consent Agreement." See "FINANCIAL STATEMENT - Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."

Municipal Bond Ratings Moody's Investors Service, Inc. ("Moody's") has assigned ratings of "Aa3" (on review for possible downgrade) to the Bonds, as a result of a municipal bond insurance policy issued by Assured Guaranty Municipal Corp. ("AGM" or the "Insurer") at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of " " to the Bonds.

Qualified Tax-Exempt

Obligations..... The District expects to designate the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and will represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2012 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

General Counsel..... Armbrust & Brown, PLLC, Austin, Texas.

Bond Counsel..... McCall, Parkhurst & Horton L.L.P., Austin, Texas.

Underwriters' Counsel Andrews Kurth LLP, Austin, Texas

Financial Advisor Southwest Securities, Austin, Texas.

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to mine carefully the Official Statement, including particularly the section captioned "INVESTMENT CONSIDERATIONS," with respect to the investment security of the Bonds.

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SELECTED FINANCIAL INFORMATION
(Unaudited as of April 1, 2012)

2011 Certified Assessed Valuation	\$425,721,916 ^(a)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 28,305,000 ^(b)
Ratio of Gross Debt to 2011 Certified Assessed Valuation	6.65%
2011 Tax Rate	
Debt Service	\$ 0.4618
Maintenance	<u>0.2882</u>
Total 2011 Tax Rate	<u>\$ 0.7500</u> ^(c)
Debt Service Fund Balance (as of March 27, 2012)	\$ 2,379,712 ^(d)
Percentage of current tax collections - (Tax Years 1998-2011)	98.50% ^(e)
Percentage of total tax collections - (Tax Years 1998-2011)	99.22% ^(e)
Projected Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Projected Average Requirement") (2012-2025, inclusive)	\$ 2,220,647
Tax Rate required to pay Projected Average Requirement based upon 2011 Certified Assessed Valuation at 95% collections	\$ 0.55 /\$100 AV
Projected Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Projected Maximum Requirement") (2013)	\$ 2,322,144
Tax Rate required to pay Projected Maximum Requirement based upon 2011 Certified Assessed Valuation at 95% collections	\$ 0.58 /\$100 AV
Number of active connections as of March 1, 2012	
Single Family - Occupied	2,815
Single Family - Unoccupied	64
Builder	13
Multi-Family - Duplexes (230 units) & Apartments (350 units)	5
Other ^(f)	<u>44</u>
Total Number of Active Connections	2,941
Estimated Population as of March 1, 2012	11,240 ^(g)

- (a) Assessed valuation of the District as of January 1, 2011 as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
(b) Includes the Bonds, excludes the Refunded Bonds. Preliminary; subject to change.
(c) The District levied a 2011 total tax rate of \$0.75 at the District's Board meeting in September 2011. See "TAXING PROCEDURES."
(d) Unaudited as of March 27, 2012. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
(e) See "TAX DATA - Tax Collections."
(f) Includes Vacant Irrigation (1), Schools (1), Non-Profit (1), Fire Hydrants (7), District connections (10), and Irrigation connections (24).
(g) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit. Of the 580 multi family units, 555 units are occupied as of March 1, 2012.

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OFFICIAL STATEMENT
relating to
\$3,890,000*
Northtown Municipal Utility District
(A Political Subdivision of the State of Texas Located in Travis County, Texas)

UNLIMITED TAX AND REVENUE REFUNDING BONDS, SERIES 2012

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Northtown Municipal Utility District (the "District") of its \$3,890,000* Unlimited Tax and Revenue Refunding Bonds, Series 2012 (the "Bonds").

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on February 28, 2012 and a pricing certificate executed by the pricing officer authorized by the order (the order and pricing certificate are collectively referred to herein as the "Bond Order"), the Constitution and general laws of the State of Texas (the "State") including Chapters 49 and 51 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

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

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Southwest Securities, 701 Brazos, Suite 400, Austin, Texas, 78701, upon payment of reasonable copying, mailing and handling charges.

PLAN OF FINANCING

Purpose

At an election held within the District on December 21, 1985, the District's voters authorized the issuance of an aggregate principal amount of \$69,443,000 of unlimited tax and revenue bonds for the construction of the District's water, sanitary sewer and drainage system. In accordance with said authorization, the District has previously issued \$1,000,000 Wastewater and Sewer System Unlimited Tax and Revenue Bonds, Series 1994 (the "Series 1994 Bonds"); \$995,000 Unlimited Tax and Revenue Bonds, Series 1997 (the "Series 1997 Bonds"); \$2,100,000 Unlimited Tax and Revenue Bonds, Series 2001 (the "Series 2001 Bonds"); \$3,510,000 Unlimited Tax and Revenue Bonds, Series 2002 (the "Series 2002 Bonds"); \$3,770,000 Unlimited Tax and Revenue Bonds, Series 2003 (the "Series 2003 Bonds"); \$2,505,000 Unlimited Tax and Revenue Refunding Bonds, Series 2004 (the "Series 2004 Bonds"); \$4,500,000 Unlimited Tax and Revenue Bonds, Series 2006 (the "Series 2006 Bonds"); \$6,005,000 Unlimited Tax and Revenue Bonds, Series 2007 (the "Series 2007 Bonds"); \$7,560,000 Unlimited Tax and Revenue Bonds, Series 2009 (the "Series 2009 Bonds"); and \$4,790,000 Unlimited Tax and Revenue Bonds, Series 2011 (the "Series 2011 Bonds"). All of the previously issued series of bonds are collectively referred to as the "Outstanding Bonds." See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS." The District reserves the right to issue the remaining \$35,213,000 authorized but unissued bonds; however, the issuance of any such bonds is subject to certain limitations as provided in the Consent Agreement (defined herein). In addition, District voters authorized the issuance of \$97,670,000 in Contract Bonds, none of which has been issued and none of which are currently expected to be issued in the future. See "THE DISTRICT – City of Austin Consent Agreement." See "FINANCIAL STATEMENT - Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."

The Bonds are being issued to achieve a debt service savings in the years 2012 through 2028, inclusive, by refunding \$3,890,000* of the District's Unlimited Tax and Revenue Refunding Bonds, Series 2004 and Unlimited Tax and Revenue Bonds, Series 2006 (collectively the "Refunded Bonds"). See "PROJECTED DEBT SERVICE REQUIREMENTS."

*Preliminary; subject to change.

The Refunded Bonds*

The principal amounts and maturity dates of the Refunded Bonds are set forth below.

Year	Series 2004	Series 2006	Total
2015	\$ 215,000	\$ -	\$ 215,000
2016	220,000	175,000	395,000
2017	-	175,000	175,000
2018	255,000	200,000	455,000
2019	-	200,000	200,000
2020	-	225,000	225,000
2021	-	225,000	225,000
2022	-	250,000	250,000
2023	-	250,000	250,000
2024	-	275,000	275,000
2025	-	275,000	275,000
2026	-	300,000	300,000
2027	-	-	-
2028	-	650,000	650,000
	<u>\$ 690,000</u>	<u>\$ 3,200,000</u>	<u>\$ 3,890,000</u>
Redemption Date:	9/1/2012	9/1/2012	

Remaining Outstanding Bonds*

The following bonds will remain outstanding after issuance of the Bonds (collectively, the “Remaining Outstanding Bonds”):

Year	Series 2004	Series 2006	Series 2007	Series 2009	Series 2010	Series 2011	The Bonds	Total
2012	\$ 280,000	\$ 140,000	\$ 175,000	\$ 200,000	\$ 85,000	\$ 150,000	\$ 45,000	\$ 1,075,000
2013	295,000	150,000	175,000	225,000	295,000	140,000	25,000	1,305,000
2014	200,000	150,000	200,000	225,000	310,000	145,000	25,000	1,255,000
2015	-	160,000	200,000	250,000	320,000	155,000	80,000	1,165,000
2016	-	-	225,000	250,000	340,000	165,000	410,000	1,390,000
2017	-	-	225,000	275,000	355,000	175,000	315,000	1,345,000
2018	-	-	225,000	275,000	375,000	185,000	340,000	1,400,000
2019	-	-	250,000	300,000	560,000	195,000	210,000	1,515,000
2020	-	-	250,000	325,000	585,000	205,000	230,000	1,595,000
2021	-	-	275,000	325,000	425,000	220,000	230,000	1,475,000
2022	-	-	275,000	350,000	450,000	230,000	255,000	1,560,000
2023	-	-	300,000	350,000	465,000	245,000	250,000	1,610,000
2024	-	-	325,000	375,000	485,000	260,000	275,000	1,720,000
2025	-	-	325,000	400,000	510,000	275,000	270,000	1,780,000
2026	-	-	350,000	-	250,000	295,000	295,000	1,190,000
2027	-	-	375,000	875,000	-	-	320,000	1,570,000
2028	-	-	-	-	-	-	315,000	315,000
2029	-	-	-	975,000	-	990,000	-	1,965,000
2030	-	-	1,230,000	-	-	-	-	1,230,000
2031	-	-	-	1,085,000	-	760,000	-	1,845,000
	<u>\$ 775,000</u>	<u>\$ 600,000</u>	<u>\$ 5,380,000</u>	<u>\$ 7,060,000</u>	<u>\$ 5,810,000</u>	<u>\$ 4,790,000</u>	<u>\$ 3,890,000</u>	<u>\$ 28,305,000</u>

*Preliminary; subject to change.

Escrow Agreement

The principal of and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds from funds and direct obligations of the United States of America to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the District and BOKF, N.A., dba Bank of Texas, (the "Escrow Agent"). The Bond Order provides that from the proceeds of the sale of the Bonds received from the Underwriters, the District will deposit with the Escrow Agent cash and direct obligations of the United States ("Federal Securities") in amounts sufficient to accomplish the discharge and final payment of the Refunded Bonds on their respective maturity dates and redemption dates, as applicable.

The District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the Federal Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the bond orders authorizing the issuance of such Refunded Bonds and in accordance with State law, including Chapter 1207, Texas Government Code, as amended. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Grant Thornton LLP, the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of 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 are insufficient to make such payment.

Estimated Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds:	
Par Amount of Bonds	\$ _____
Original Issue Premium/Discount	_____
Accrued Interest on the Bonds	_____
Total Sources of Funds	\$ _____
Uses of Funds:	
Escrow Deposit	\$ _____
Costs of Issuance	_____
Underwriter's Discount	_____
Deposit to Debt Service Fund (Accrued Interest and Rounding Amount)	_____
Total Uses of Funds	\$ _____

THE BONDS

General Description

The Current Interest Bonds will bear interest from June 1, 2012 and will mature on September 1 in the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Current Interest Bonds will be paid on September 1, 2012 and each March 1 and September 1 (each, an "Interest Payment Date") thereafter until maturity or prior redemption. Interest on the Capital Appreciation Bonds will accrete from the date of delivery, will be compounded each March 1 and September 1 of each year, commencing September 1, 2012 and will be payable only upon maturity. See "Appendix B – Schedule of Accreted Values." The Capital Appreciation Bonds will be issued in the original principal amount of \$80,000* and will mature together with interest accreting from initial delivery on September 1, 2015.

*Preliminary; subject to change.

The Bonds will be initially 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/Registrar to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrar for the Bonds is BOKF, N.A., dba Bank of Texas (the "Paying Agent/Registrar").

Yield on Capital Appreciation Bonds

The approximate yields of the Capital Appreciation Bonds as set forth on the inside cover page of this Official Statement are based upon the initial offering price therefor set forth on the inside cover page of this Official Statement. Such offering price includes the principal amount of such Capital Appreciation Bonds plus premium, if any, equal to the amount by which such offering price exceeds the principal amount of such Capital Appreciation Bonds. The yield on the Capital Appreciation Bonds to a particular purchaser may differ depending upon the price paid by the purchaser. For various reasons, securities that do not pay interest periodically, such as the Capital Appreciation Bonds, have traditionally experienced greater price fluctuations in the secondary market than securities that pay interest on a periodic basis.

Redemption

Optional Redemption... The Current Interest Bonds maturing on and after September 1, 2020, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2019, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Capital Appreciation Bonds are not subject to redemption.

Mandatory Sinking Fund Redemption . . . In addition to being subject to optional redemption, as provided above, the Current Interest Bonds maturing on September 1, _____ and September 1, ____ are subject to mandatory sinking fund redemption prior to maturity by lot or other customary random method in the following amounts, on the following dates and at a price of par plus accrued interest to the redemption date from amounts required to be deposited in the Debt Service Fund:

\$ _____ Term Bond Maturing September 1, *	
Mandatory	
Redemption	Principal
Date	Amount

\$ _____ Term Bond Maturing September 1, *	
Mandatory	
Redemption	Principal
Date	Amount

*Stated Maturity.

The principal amount of the Current Interest Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Current Interest Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Current Interest Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent for cancellation, (2) shall have been purchased and cancelled by the Paying Agent at the request of the District, with monies in the Debt Service Fund at a price not exceeding the principal amount of the Current Interest Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Notice of Redemption . . . At least 30 calendar days prior to the date fixed for any redemption of the Current Interest Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent/Registrar by the United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Current Interest Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services. The Current Interest Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Current Interest Bond to be partially redeemed must be surrendered in exchange for one or more new Current Interest Bonds of the same maturity for the unredeemed portion of the principal of the Current Interest Bonds so surrendered. In the event of redemption of less than all of the Current Interest Bonds, the particular Current Interest Bonds to be redeemed shall be selected by the District, if less than all of the Current Interest Bonds of a particular maturity are to be redeemed, the Paying Agent/Registrar is required to select the Current Interest Bonds of such maturity to be redeemed by lot or other customary random method.

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

DTC Redemption Provision

The Paying Agent and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent. Neither the District nor the Paying Agent will have any responsibility to the DTC Participants. Indirect Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption.

Termination of Book-Entry-Only System

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

Payment . . . Principal of the Current Interest Bonds will be payable at maturity to the registered owners as shown by the registration books maintained by the Paying Agent upon presentation and surrender of the Bonds to the Paying Agent at the designated office for payment of the Paying Agent in Austin, Texas (the "Designated Payment/Transfer Office"). Interest on the Current Interest Bonds will be payable by check or draft, dated as of the applicable interest payment date, sent by the Paying Agent by United States mail, first class, postage prepaid, to the registered owners at their respective addresses shown on such records, or by such other method acceptable to the Paying Agent requested by registered owner at the risk and expense of the registered owner. If the date for the payment of the principal of or interest on the Current Interest Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent is located are required or authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the original date payment was due.

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

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Current Interest Bonds (i) during the period commencing on the close of business on the fifteenth (15th) (whether or not a business day) calendar day of the month preceding each

interest payment date (the “Record Date”) and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

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

Authority for Issuance

At an election held within the District on December 21, 1985, voters within the District authorized a total of \$69,443,000 in principal amount of bonds for water, wastewater, and drainage facilities. The District has issued nine series of new money bonds and has \$35,213,000 remaining in authorized but unissued unlimited tax and revenue new money bonds. In addition, District voters authorized the issuance of \$97,670,000 in contract revenue bonds, none of which have been issued and none of which are expected to be issued in the future.

The Bonds constitute the third installment of refunding bonds issued by the District. The Bonds are issued pursuant to the terms and provisions of the Bond Order, Chapter 1207 of the Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended and Article XVI, Section 59 of the Texas Constitution.

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

Source of and Security for Payment

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not legally limited as to rate or amount. See “TAXING PROCEDURES.” The Bonds are further payable from and are secured by a pledge of certain Net Revenues (defined below), if any, of the System (defined below) and subject to the conditions described below.

Tax Pledge... The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax, against anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the paying of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated as its “Debt Service Fund” for the Bonds. The Bond Order provides for the termination of the pledge of taxes and Net Revenues when and if the City of Austin dissolves the District and assumes all debts and liabilities of the District.

Net Revenues Pledge... The Bonds are further secured by a first lien on and pledge of certain Net Revenues, if any, of the District’s water, wastewater and drainage system which does not include any facilities constructed with proceeds of any Special Project Bonds issued by the District (collectively, the “System”). “Net Revenues” are defined by the Bond Order as net revenues received from the operation of the System after deduction of reasonable costs of administration, efficient operation and adequate maintenance, provided however, the term “Net Revenues” shall not include any revenues, now or hereafter pledged or contracted to be pledged by the District pursuant to a contract authorized by law under which contract such revenues are to be pledged to the payment of bonds issued by the District for any special project. Any Net Revenues remaining after payment of debt service on the Bonds is available to the District for any lawful purpose. The Net Revenues are entirely dependent upon sales of water and sewer services to residents and users in the District. **It is not expected that the operation of the System will produce Net Revenues sufficient to make any substantial contributions to the District’s debt service requirements.**

Dissolution... Under Texas law, the District may be annexed and dissolved by the City of Austin (the “City”) without the consent of the District or its residents. When and if the District is abolished, the City must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes and Net Revenues, if any, will terminate. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur. See “THE DISTRICT – City of Austin Consent Agreement.”

Payment Record

The District has never defaulted on the timely payment of the principal of or interest on its bonds. The District has utilized bond proceeds to capitalize interest from one to two years in connection with the new money Outstanding Bonds. See ‘FINANCIAL STATEMENT – Outstanding Bonds.’

Flow of Funds

The Bond Order creates, or affirms creation, establishment and maintenance by the District of a Debt Service Fund and Escrow Fund for the Bonds.

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

The Refunded Bonds and the interest due thereon will be paid on the first optional redemption date from funds on deposit with the Escrow Agent and held in a separate Escrow fund. See “PLAN OF FINANCING – Refunded Bonds.”

Defeasance of Outstanding Bonds

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

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

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

For purposes of these provisions, “Defeasance Securities” means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves

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

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

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

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

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

Paying Agent/Registrar

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

Record Date

The record date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the close of business on the fifteenth (15th) day of the month (whether or not a business day) preceding such interest payment date.

Issuance of Additional Debt

General

The District may issue additional bonds, with the approval of the TCEQ and the City of Austin, necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See “THE DISTRICT – General.” The District’s voters have authorized the issuance of \$69,443,000 of unlimited tax and revenue bonds for the purpose of providing water, wastewater and storm drainage facilities and to reimburse developers for certain construction costs in connection with such facilities, of which \$35,213,000 of unlimited tax and revenue new money bonds remain authorized but unissued. Additionally, the District’s voters have authorized \$97,670,000 in contract revenue bonds, all of which remain authorized but unissued. The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District if so authorized by the voters in the District and approved by the District, the TCEQ and the City of Austin. The District anticipates issuing additional bonds from existing authorization to repay eligible reimbursements to developers in the District. As of the date hereof, the District’s Engineer estimates that approximately \$1,917,590 of actual reimbursable construction costs have been incurred and will be payable to the developers pursuant to various reimbursement agreements, as hereinafter described.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds for such purpose. Before the District could issue ad valorem tax bonds for fire-fighting activities, the following actions would be required: (i) approval of the fire plan and issuance of bonds by the TCEQ; (ii) authorization of a detailed fire plan and bonds for such purposes by the qualified voters in the District; (iii) amendments to the existing City of Austin ordinance specifying the purposes for which the District may issue bonds; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election for approval of a fire plan or related bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds. Current fire protection and emergency services are provided by the Travis County Emergency Services District No. 2. The District does not have any current intention to engage in fire-fighting activities.

Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future; however, the issuance of bonds for parks and recreational facilities would require City of Austin approval due to limitations contained in the Consent Agreement. See “THE DISTRICT – City of Austin Consent Agreement.”

Contract Revenue Bonds

On January 6, 1986, the District and the City of Austin, Texas (the “City”) entered into a Utility Construction Contract (the “Contract”) governing the issuance of the \$97,670,000 contract revenue bonds authorized by the voters of the District on December 21, 1985 (the “Contract Revenue Bonds”). Any Contract Revenue Bonds issued would be special obligations of the District secured by a first lien on and pledge of Contract Payments (as hereinafter defined) to be made by the City to the trustee for the Contract Revenue Bonds pursuant to the Contract, as amended, authorized under Section 402.014 Local Government Code, as amended, formerly Article 1109j, Vernon’s Annotated Texas Civil Statutes, as amended. The Contract Payments would constitute a special revenue obligation of the City payable from the net revenues of the City’s waterworks and sewer system, subject to a prior lien on and pledge of the City’s Prior Lien Revenue Bonds and on a parity with the City’s Subordinate Lien Revenue Bonds.

Under the terms of the Contract, the District agreed to issue bonds to finance the acquisition and construction of additions, extensions and improvements to the sanitary sewer system of the City, and the City agreed to make payments sufficient to meet debt service requirements (the “Contract Payments”). Upon completion of construction, the City would own and operate the facilities, but would reserve adequate capacity to serve the District. The District agreed to reimburse the City for the District’s pro rata share of the construction costs (approximately 16.13%). The District’s payments to the City would be payable from an ad valorem contract tax levied upon all taxable property within the District and additionally secured by a subordinate lien on the Net Revenues of the District’s System. The Contract is in effect until the Contract Bonds are paid, not to exceed 40 years.

Subsequent to execution of the Contract, a number of the water and wastewater projects contemplated by the Contract were funded through the City of Austin’s capital improvement fund. As a result, on August 14, 1986, the City and the District entered into a First Amendment to the Contract which, among other things, provides that the provisions of the Contract requiring the District to issue Contract Revenue Bonds to pay for certain water and wastewater projects will take effect only if the City elects to require the District to finance a portion of such project costs through the issuance of Contract Revenue

Bonds. As of the date hereof, the City has not made an election to require the District to issue the Contract Revenue Bonds and it is currently not anticipated that any Contract Revenue Bonds will be issued.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

Specific Tax Covenants

In the Bond Order, the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that regulations or rulings hereafter promulgated modify or expand provisions of the Internal Revenue Code of 1986, as amended (the "Code"), so that such covenant is ineffective or inapplicable or compliance with such covenant adversely affects the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Additional Covenants

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

Remedies in Event of Default

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce

the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Consolidation

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 water and wastewater systems with the water and wastewater system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will or will not consolidate its water and wastewater system with any other district.

Annexation

The District lies entirely within the extraterritorial jurisdiction of the City of Austin, Texas ("Austin" or the "City"). Under Texas law, the District may be annexed by the City without the District's consent. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control over or knowledge of the annexation plans of the City of Austin. Therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. See "THE DISTRICT – City of Austin Consent Agreement."

Alteration of Boundaries

Under Texas law, the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory; and 2) under certain circumstances, exclude land which is non agricultural or cannot be irrigated if land which can be irrigated of at least equal value and acreage is annexed. No representation is made concerning the likelihood that the District will effect any change in its boundaries.

Approval of the Bonds

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

No-Litigation Certificate

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

No Material Adverse Change

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

Amendments to the Bond Order

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct 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 Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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, interest and principal payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, interest and principal payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District. 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 Order 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.

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

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

Interest rates and the availability of credit, including mortgage and development funding, have a direct impact on the construction activity, particularly short-term interest rates at which the Developer and homebuilders are able to obtain financing for development and construction costs. As a result of increasing foreclosure activity, potential adverse impact on assessed valuations and a general tightening of credit that has resulted, lenders have increased lending requirements for both single family mortgage lending and real estate development lending. Additionally, lenders have been selective in recent years in making real estate development loans in the Austin area because of the negative impact to their real estate portfolios. Interest rate levels and the general availability of credit may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District and the ability of potential homeowners to purchase homes. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Austin metropolitan and regional economics.

National Economy: Nationally, there has been a significant downturn in new housing construction due to the lack of liquidity and other factors, resulting in a decline in housing market values. The ability of individuals to qualify for a mortgage as well as the general reduction in mortgage availability has also decreased housing sales. The Austin area, including the District, has experienced reduced levels of home construction and home sales activity. The District cannot predict what impact, if any, a continued downturn in the national housing and financial markets may have on the Central Texas market and the District.

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

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

Drought: Central Texas, like other areas of the State, is experiencing extreme drought conditions. The District has adopted a water conservation plan and currently has implemented stage 2 water restrictions for residents of the District. The City of Austin provides water to the District in amounts sufficient to service the residents of the District, however, as drought conditions continue water usage and rates could be impacted.

Dependence Upon Developers, Lot Owners and Builders: The principal taxpayers and major landowners in the District are the Developers. The growth of the tax base is dependent upon additional construction of homes and commercial development within the District. The Developers are under no obligation to continue to market for improvement of developed tracts of land. Thus, the furnishing of information related to the proposed development by the Developers should not be interpreted as such a commitment by any of the Developers. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers to whom such parties may sell all or a portion of their holdings within the District, to implement any plan of development. Furthermore, there is no restriction on the Developers right to sell their land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developers. Failure to construct taxable improvements on developed lots and tracts and failure of the Developers to develop their land would restrict the rate of growth of taxable value in the District. See "THE DISTRICT –Status of Development" and "THE DEVELOPERS."

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

Impact on District Tax Rates: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2011 certified assessed valuation of the District is \$425,721,916 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$2,322,144 (2013) and the Average Annual Debt Service Requirement will be \$2,220,647 (2012 through 2025, inclusive). Assuming (1) no increase or decrease from the 2011 certified assessed valuation, and (2) no use of funds on hand, a tax rate of \$0.58/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$2,322,144, and a tax rate of \$0.55/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$2,220,647. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

Bond Insurance Risks

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the issuer which is recovered by the issuer from the bond owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the Insurer at such time and in such amounts as would have been due absence such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

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

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

Neither the District nor the Underwriters have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Housing Market - Volatility and Recent Foreclosures

In recent months, deteriorating economic conditions and disruption in the housing market has lead to a significant number of foreclosures on single family homes. In the District, there were 27 foreclosures on single family homes during calendar year 2011 and, as of March 1, 2012, there have been 10 foreclosures on single family homes in 2012. No assurance can be given whether the number of foreclosures will increase or decrease or that market conditions will improve.

Tax Collections and Foreclosure Remedies

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

Registered Owners' Remedies

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

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of registered owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (i) is specifically authorized to file for federal bankruptcy protection by applicable state law, (ii) is insolvent or unable to meet its debts as they mature, (iii)

desires to effect a plan to adjust such debts, and (iv) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under State law a water control and improvement district, such as the District, must obtain the approval of the Commission as a condition to seeking relief under the Federal Bankruptcy Code. The Commission is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under State law and remains unable to meet its debts and other obligations as they mature.

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

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

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

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

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

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

Marketability

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

Continuing Compliance with Certain Covenants

Failure of the District to comply with certain covenants contained in the Bond Order on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Environmental Regulation

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance of and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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

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

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

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

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

Operation of the District's sewer facilities is subject to regulation under the Federal Clean Water Act and the Texas Water Code. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed under permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System ("NPDES") program, a national

program established by the Clean Water Act for issuing, revoking, monitoring and enforcing wastewater discharge permits. On September 14, 1998, EPA authorized Texas to implement the NPDES program, which is called the Texas Pollutant Discharge Elimination System ("TPDES") program.

TPDES permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. Any discharges to water bodies designated as impaired streams in accordance with the Clean Water Act may be precluded from obtaining a TPDES permit if pollutants for which the stream is designated as impaired are among those pollutants being released by a District. Moreover, the Clean Water Act and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations. In addition, under the Clean Water Act, states must identify any bodies of water for which more stringent effluent standards are needed to achieve water quality standards and must establish the maximum allowable daily load of certain pollutants into the water bodies. Total maximum daily loads ("TMDLs") rules can have a significant impact on the District's ability to obtain TPDES permits and maintain those permits. The District may be required to expend substantial funds to meet any of these regulatory requirements. If the District fails to achieve compliance with its discharge permits, a private plaintiff or the EPA could institute a civil action for injunctive relief and civil penalties.

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

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

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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

Future Debt

The District has reserved the right in the Bond Order to issue the remaining \$35,213,000 authorized but unissued unlimited tax and revenue bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$35,213,000 unlimited tax and revenue bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas, the TCEQ and the City of Austin. In the opinion of the District's engineer, the remaining authorization should be sufficient to complete the development in the District. As of the date hereof, the District's engineer estimates that approximately \$1,917,590 of actual

reimbursable construction costs have been incurred and will be payable to the developers pursuant to various reimbursement agreements. See "THE SYSTEM."

The District does not currently anticipate the issuance of the full principal amount of authorized but unissued bonds (\$35,213,000), but the District retains the legal right to issue the full amount of authorized but unissued bonds subject to the approval of the TCEQ and the City of Austin. The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS -Issuance of Additional Debt" and "FINANCIAL STATEMENT - Unlimited Tax and Revenue Bonds Authorized But Unissued."

Tax Exempt Property – Strategic Housing Finance Corporation of Travis County

There is the potential for property within the District to be owned by tax-exempt entities such as the "Strategic Housing Finance Corporation of Travis County" ("SHFC"), a public nonprofit housing finance corporation established in 2004 pursuant to Chapter 394 of the Texas Local Government Code (the "Texas Housing Finance Corporations Act"). SHFC operates a lease-to-purchase affordable housing program for low to moderate income families in Travis County that was initially financed with the proceeds of \$35 million in Lease Purchase Revenue Bonds issued by SHFC in 2004. Pursuant to the program as currently structured by SHFC, low to moderate income families in Travis County pay a fee to SHFC which purchases a home and leases it back to the family for a period of thirty-nine (39) months. Under the Texas Housing Finance Corporations Act, all property owned by a nonprofit housing finance corporation, such as SHFC, is tax-exempt, therefore during the thirty-nine (39) month term of the lease within which SHFC owns the home, that property is removed from the tax rolls. If the tenant vacates the property or cannot afford to assume the mortgage at the end of the lease term, then the property may remain tax-exempt indefinitely. As of April 3, 2012, there are no homes within the District that are owned by SHFC and reflected on the 2011 tax roll. Because the SHFC program is between SHFC and an individual resident, the District cannot make any projection regarding the future impact the SHFC program may have on its taxable appraised values. It is not known whether SHFC will seek additional funding for its program in the future or alter the terms and leasing arrangements at which it offers homes through its programs. Additionally, taxable appraised values may also be adversely affected if similar lease-to-purchase affordable housing programs are instituted by other corporations created under the Texas Housing Finance Corporations Act.

Future and Proposed Legislation

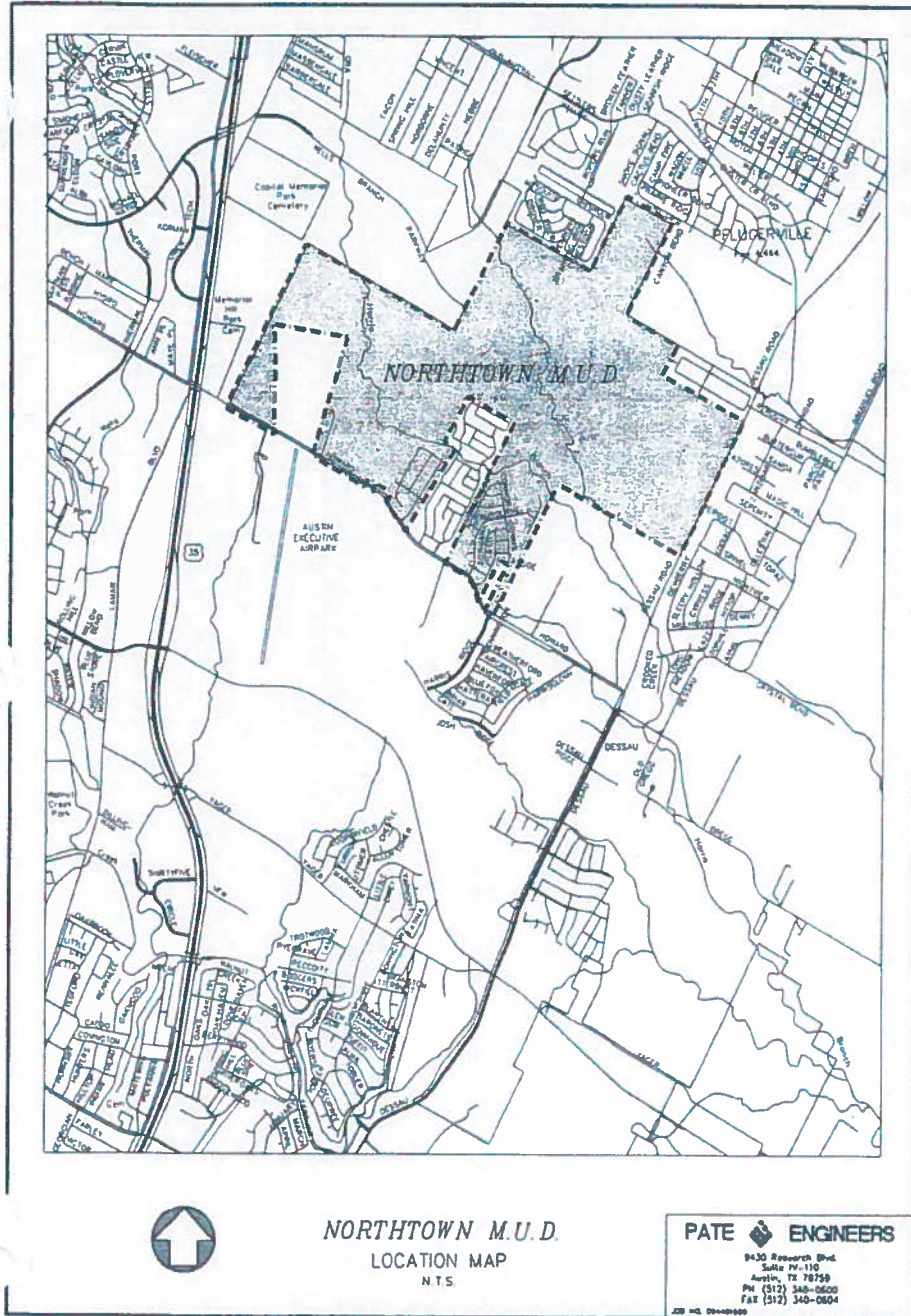
Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal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

Aging Infrastructure

The District has recently experienced issues with the low flow lift station and was required to repair force main breaks in 2010, 2011, and 2012. Each of these appear to be unrelated, however, the District incurred a total repair cost of approximately \$400,000. The District is currently upgrading the lift station to extend its life and will begin to evaluate options to replace the force main in the 3rd quarter of 2012.

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DISTRICT MAP



THE DISTRICT

General

The District was created by an order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), adopted on August 14, 1985 and a confirmation election held within the District on December 21, 1985, and operates as a municipal utility district pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes of the State of Texas applicable to municipal utility districts. The District is subject to the continuing supervision of the TCEQ and is located entirely within the extraterritorial jurisdiction of the City of Austin. See "THE BONDS - Source of and Security for Payment – Dissolution."

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. If approved by the voters and the TCEQ, the District may establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District. Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Water Code authorize certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of park and recreational facilities. The District has not called an election to authorize bonds for such purpose but may consider doing so in the future; however, the issuance of bonds for parks and recreational facilities would require City of Austin approval due to limitations contained in the Consent Agreement, as described below. See "THE BONDS – Issuance of Additional Debt".

The TCEQ exercises continuing supervisory jurisdiction over the District. Under the Consent Agreement, which was required in order to obtain the City's consent to creation of the District, the District was required to agree to observe certain requirements of the City of Austin which, among other requirements, limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities; require approval by the City of Austin of District construction plans; and permit connections only to single family lots and commercial or multi-family commercial platted reserves which have been approved by the Planning Commission of the City of Austin. Construction and operation of the District's System is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM."

City of Austin Consent Agreement

In 1984, the City Council of the City of Austin ("Austin" or "the City") passed Ordinance No. 84-0503, which granted the City's consent to creation of the District and approved the "Agreement Concerning Creation and Operation of Northtown Municipal Utility District" (the "Consent Agreement"). Following creation of the District by the TCEQ, the District joined in the Consent Agreement on January 6, 1986. The Consent Agreement sets forth terms and conditions regarding, among other things, the issuance of bonds by the District, the water supply and wastewater treatment services to be provided to the District by the City, limitations on service by the District, and land use and development within the District. The Consent Agreement has been amended by agreements between the City and the District dated April 16, 1990, December 1, 1993, November 30, 1994, August 17, 1997, February 23, 2000, and July 2, 2003. The following is a summary of certain of the terms and conditions of the Consent Agreement, as amended, but it is not a complete description and is qualified by reference to the Consent Agreement and its amendments, copies of which are available from the District.

In the Consent Agreement, the City has contracted to provide water required for commercial and domestic purposes by users within the District and to receive, treat, and dispose of all sewage collected by the District and delivered to the City's sewer trunk lines. The District is a wholesale water and wastewater customer of the City for all areas of the District except a small area of the District that is provided wastewater service directly by the City under the terms of the "Interlocal Agreement Regarding the Provision of Retail Water and Wastewater Service to the Lake at Tech Ridge Development" dated February 13, 2006 (the "Tech Ridge Interlocal Agreement"). See "THE SYSTEM".

Under the Consent Agreement, the District receives wholesale services from the City on similar terms to those applicable to service to other municipal utility districts served by Austin. The Consent Agreement provides that Austin will not be liable for a failure to provide water and wastewater service if the failure results from conditions outside of Austin's control. In addition, Austin has the right to limit service to the District on the same basis and to the same extent that Austin limits service to other customers.

The Consent Agreement provides that each developer will serve as project manager for the construction of the portion of facilities constituting the District's utility system that is being funded by the developer. Plans for all District facilities are subject to review and approval by the TCEQ and Austin prior to construction.

The District may not serve customers outside of its boundaries and may not annex additional land into the District without the prior approval of Austin. Under the Tech Ridge Interlocal Agreement, the City and the District agreed that, with respect to a development which is located partially within the District and partially within the City's service area outside of the District, the City would serve an area located within the District and the District would serve an area located outside of the District and in Austin's service area of approximately the equivalent size. This agreement was entered into in order that lots within this area would be served by a single service provider.

The Consent Agreement provides that the City may annex the District after eight years from the date of confirmation of creation of the District, which occurred December 21, 1985, if 90% of the District's facilities that were to be constructed through the issuance of bonds had not been completed by that date (December 21, 1993). Because 90% of the District's facilities were not completed by December 21, 1993, the City could technically proceed with annexation of the District at any time. Generally, under Texas law, the City may not annex any land within the District unless it annexes the entire District, assumes all of the District's obligations including the Bonds, and dissolves the District. See "THE DISTRICT-Strategic Partnership Negotiations."

The District and the City of Austin have agreed to certain land use controls, including land use and 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 State law and City of Austin ordinances.

Strategic Partnership Negotiations

Section 43.0751 of the Texas Local Government Code permits cities and districts to negotiate and enter into written agreements providing terms and conditions under which the land within a district will be annexed, services will be provided and funded, and the district will continue either in its then-existing form or as a limited district that provides only specified functions. At this time, Austin has not initiated any discussions and no negotiations on the terms of any possible strategic partnership agreement or on the creation of a limited district have occurred.

Management of the District

Board of Directors

The District is governed by a Board, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years, with elections currently held within the District on the first Tuesday after the first Monday in November in each even-numbered year. All of the directors reside or own property in the District.

Name	Position	Length of Service	Term Expires May
Robin Campbell	President	12 ½ years	2016
Brenda Richter	Vice President	12 years	2014
Scott M. Gray	Treasurer	4 years	2014
Alex Martinez	Secretary	4 years	2014
Felix T. Amaro, Jr.	Assistant Secretary	1½ years	2016

Consultants

Tax Assessor/Collector

Land and improvements in the District are appraised for tax purposes by the Travis Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Travis County Tax Assessor/Collector, Ms. Tina Morton, currently serves the District in this capacity under contract.

Operator

The District contracts with Crossroads Utility Services, Inc. ("Crossroads") to serve as operator for the District. Crossroads serves in a similar capacity for 28 other special districts in the Austin metropolitan area.

Engineer

The District's consulting engineer is 360 Professional Services, Inc.

Bookkeeper

The District's bookkeeper is Bott & Douthitt, PLLC ("Bott & Douthitt"). Bott & Douthitt serves as bookkeeper to 35 other special districts.

Financial Advisor

Southwest Securities serves as the District's financial advisor (the "Financial Advisor"). The fee for services rendered in connection with the issuance of the Bonds is based on the percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Bond Counsel

The District has engaged McCall, Parkhurst & Horton L.L.P., Austin, Texas, as Bond Counsel in connection with the issuance of the District's Bonds. The fees of Bond Counsel are contingent upon the sale of and delivery of the Bonds.

General Counsel

The District has engaged Armbrust & Brown, PLLC ("A&B") as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

Location

The District is located in Travis County, approximately 15 miles northeast of Austin's central business district. The District lies wholly within the extraterritorial jurisdiction of the City of Austin and is adjacent to the city limits of the City of Pflugerville. The District is comprised of approximately 1,224.34 acres of which approximately 997.33 acres are developable under current development regulations. Access to the District is provided by Interstate Highway 35 and Farm to Market Road 1825.

Status of Development

Development within the District commenced in 1986 when Milburn Homes ("Milburn"), a predecessor to Horton, developed approximately 58.57 acres of land as Northtown, Sections 1, 2, 4, 5A, 7 and 9 containing 359 single family lots.

On December 13, 1993, Dessau Road, Limited Partnership ("DRLP") purchased approximately 71 undeveloped acres and developed approximately 33.62 acres as Northtown West, Section 1 containing 167 single family lots.

In 1994, SVWW Harris Ridge Limited Partnership purchased approximately 95 undeveloped acres within the District, and SVWW developed approximately 44.69 acres as Wildflower, Sections 1, 2, 3, 4 and 5, containing 225 single family lots.

On June 30, 1999, Pulte Homes of Texas, L.P. ("Pulte") purchased approximately 69.59 acres within the District, all of which has been developed as Settlers Meadow, Sections 1, 2, 3 and 4, containing 295 single family lots.

Horton purchased an additional approximately 234.48 acres within the Gaston/Sheldon Tract within the District in two parcels on November 24, 1998 and April 30, 1999. All 234.48 acres have been developed as Gaston Sheldon, Sections 1, 2, 3, 4 and 5, containing 959 single family lots.

In May, 2002, Horton purchased an additional 58.44 acres within the District. This acreage was combined with 57.60 acres purchased in February of 2002. Approximately 48.63 acres were developed as Brookfield Estates I (182 single family lots) and approximately 62.25 acres were developed as Brookfield Estates II (319 single family lots).

In November, 2002, KB purchased and developed approximately 8.19 acres within the District as Northtown Park, Section 8, containing 57 lots. KB subsequently purchased approximately 79.98 acres developed or being developed as The Lakes at Northtown, expected to ultimately contain a total of 310 single family lots, of which 273 will be located within the District. As of August 1, 2011, The Lakes at Northtown consisted of: Section 1 (22.21 acres; 69 single family lots, of which 53 are located within the district), Section 2 (18.32 acres; 62 single family lots), Section 3 (9.38 acres; 50 single family lots) and

Section 4 (12.93 acres; 68 total single family lots, 62 of which are located within the District). According to KB, construction of Section 5 (17.15 acres, 61 total single family lots, of which 45 are located within the District) is expected to begin in May 2012 and is expected to be completed in September 2012.

On September 6, 2005, NWC Howard & I-35 Ltd. ("NWC") purchased 139 acres of land including approximate 129 acres located within the District. NWC is a Texas limited partnership whose general partner is NWC Howard & I-35 GP, LLC. Subsequently, on March 22, 2007, NWC sold 90.54 acres to Hanna/Magee LP #1. NWC sold its remaining 48.44 acres to Techridge Spectrum BC L.P. ("Techridge"), and no longer owns any property within the District.

Techridge is a Delaware limited partnership whose general partner is Kelly CT Spectrum B.C. Inc., a Delaware corporation. Techridge subsequently sold 16.35 acres to Morgan, which developed the 16.35 acres as The Villas at Techridge, containing 350 multifamily units, and Techridge retains ownership of the remaining 32.09 acres, of which approximately 11.60 acres are located within the boundaries of the District. All of the remaining property owned by Techridge has been developed with utility facilities and storm drainage. According to Techridge, it has plans to construct an apartment complex called Oaks at Techridge, containing a total of 336 units. Construction began in September 2011 and is expected to be completed in March 2013.

On June 30, 2000 and September 27, 2000, respectively, Village purchased three tracts of land within the District totaling approximately 327 acres, including approximately 263 acres from the Pfluger Family Limited Partnership ("PFLP"), the remaining approximate 27 undeveloped acres owned by SVWW Harris Ridge Limited Partnership ("SVWW") and approximately 37 acres from Dessau Road, Limited Partnership ("DRLP"). Of the total 327 acres, approximately 272 acres are currently developable. Village designed a master plan for the development of its 272 net developable acres including single family detached and single family attached residential units, multifamily residential units, office, retail/commercial and public use, including a greenbelt area, and informed the District that it plans to subdivide its land, provide infrastructure and sell tracts to other developers and end users. According to Village, the master plan was approved by the City Council of the City of Austin on April 10, 2003, and by the District on July 2, 2003. Certain revisions to the master plan were approved by the District on October 28, 2008, and by the City of Austin on November 21, 2008. Further revisions to the master plan were approved by the District on May 25, 2010 and by the City of Austin on September 15, 2010. Still another revision to the master plan to accommodate the school site mentioned below was approved by the District on August 24, 2010 and by the City of Austin on September 20, 2010. Pursuant to an agreement with Travis County, Village has caused the construction of the extensions of two arterial roadways, Wells Branch Parkway and Heatherwilde Boulevard, through the District, together with certain associated utility mains and stormwater detention facilities. These improvements, which are now complete, were necessary for development of the Village tracts. Village and the District have executed a reimbursement agreement for certain infrastructure and development costs incurred by Village in connection with the utility and drainage components of the roadway extensions. In 2009, the City of Austin and Travis County approved (i) a preliminary subdivision plan of the entire Village property, and (ii) the final subdivision plat of Village at Northtown, Section One, consisting of nine (9) retail lots and one (1) multifamily residential lot collectively covering 35.03 acres. In October 2010, an approximate 12.53 acre parcel at the intersection of the proposed extension of Harris Ridge Blvd. and the proposed John Henry Faulk Dr. was sold to the Pflugerville Independent School District ("Pflugerville ISD") for a new elementary school site. A revision to the District's land use plan to designate this parcel for school use has been approved by the District and the City of Austin. Construction on the streets, utility and drainage facilities necessary to serve the school site is substantially complete. Village and the District have executed a reimbursement agreement for the water, wastewater and drainage components of this construction. The elementary school is expected to open in August 2012. Revisions to the approved preliminary subdivision plan pertaining to approximately 18.75 acres of land for detached single family residential and attached single family residential development across Harris Ridge Blvd. from the new school site were approved in December 2011. Final platting of this area is contemplated in the near future, but no single family home construction on the Village property has yet commenced.

Parks

The District currently owns three parks: (i) the 60 acre Stoney Creek Park, which was expanded in 2004 from its original 10.34 acres and is currently improved with two playscapes, picnic tables, a granite trail, irrigated landscaping, two soccer fields, a sand volleyball court and pavilion; (ii) the 6.768 acre Meadow Point Park, which is improved with a playscape; and (iii) the 20.34 acre Wildflower Park, which is also improved with a playscape. The District's land plan projects that the District will be donated additional land, which is primarily creek frontage located within the 100-year flood plain, which will be used as part of the District's integrated trail system.

The chart below reflects the status of development as of April 1, 2012:

A. Developed with Utility Facilities

Sections	Acreage	Platted Lots	Single Family		
			Completed Homes	Units Under Construction	Vacant Lots
<u>Northtown / Northtown Park</u>					
1, 2, 4, 5A, 7, 8 & 9	66.76	416	416	-	-
<u>Northtown West</u>					
1	33.62	167	165	-	2
<u>Wildflower</u>					
1 - 5	44.69	225	225	-	-
<u>Settlers Meadow</u>					
1- 4	69.59	295	295	-	-
<u>Gaston Sheldon</u>					
1 - 5	234.48	959	959	-	-
<u>Brookfield Estates I</u>					
1 - 3	48.63	182	182	-	-
<u>Brookfield Estates II</u>					
1-6	62.25	319	319	-	-
<u>The Lakes at Northtown</u>					
1	22.21	69	61	1	7
2	18.32	62	58	-	4
3	9.38	50	44	1	5
4	12.93	64	21	9	34
<i>Subtotal</i>	62.84	245	184	11	50
<u>Parkway at Northtown</u>	22.29 (a)	11	11	-	-
<u>Village at Northtown, Section 2</u>					
Phase 1	12.32 (a)	35	-	-	35
Phase 2	6.44	41	-	-	41
<i>Subtotal</i>	18.75	76	-	-	76
Total Single Family	663.90	2,895	2,756	11	128

Sections	Acreage	Multi-Family		
		Completed Units	Units Under Construction	Units to be Constructed
<u>Parkway at Northtown: Duplex Units</u>	- (a)	86	-	-
<u>Parkside at Northtown: Duplex Units</u>	19.77	144	-	-
<u>Villas at Techridge: Apartments</u>	16.35	350	-	-
<u>The Lakes at Techridge: Apartments</u>	11.60	-	-	336
<u>Village at Northtown: Section 1 - Apartments</u>	19.00	-	-	418
<u>Village at Northtown: Section 2 - Duplex Units</u>	- (a)	-	-	92
Total Multi-Family	66.72	580	-	846

B. Commercial/Retail

Village at Northtown, Section 1

16.03

*approximately 280,000 - 350,000 sq ft

C. Elementary School

12.53

Total Developed Acreage

759.18

D. Remaining Undeveloped but Developable Acreage

The Lakes at Northtown

17.15

Village at Northtown

205.01

Other

16.00

Subtotal

238.15

Total Developable Acreage

997.33

E. Undevelopable Acreage

227.01

Total Acreage 1,224.34

(a) Includes acreage for single-family and multi-family development.

THE DEVELOPERS

Role of a Developer

In general, the activities of a landowner or developer within a utility district, such as the District, include purchasing land within the future district, petitioning for creation of the district, designing the development, defining a marketing program, planning and scheduling building schedules, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases water, sewer, and drainage facilities in the utility district) pursuant to the rules of the Commission, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, the developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, if any, a developer is generally under no obligation to a district to undertake development activities with respect to other property it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of its land within a district. In addition, the developer is ordinarily the major taxpayer within a district during the early stages of development. The relative success or failure of the developer to perform such activities in development of the property within the utility district may have a profound effect on the security for the bonds issued by a district.

Description of the Developers and Land Owners

Horton: Horton and related joint ventures are developing land and building homes within the nearby Central Texas cities of Austin, Cedar Park, Killeen, Kyle, Manor, Pflugerville, Round Rock, Temple and Waco. Current subdivision activities include the following development projects; Avery Ranch, Bauerle Ranch, Briar Creek, Brookfield, Benbrook, Cedar Park TC, Circle C Ranch, Creekview Estates, Hutto Square, Parmer Village, Ranch Alto, Riverwalk, Scofield Farms, Sweetwater Glen, Highland Park, Kensington Trail, Presidential Meadows and Settler's Overlook. Horton has developed more than 4,000 acres and sold over 25,000 homes in the past 30 years.

Horton is a Delaware corporation whose stock is traded on the New York Stock Exchange. Horton is a national builder that builds homes in 73 markets and 25 states. For the fiscal year ended September 30, 2011, Horton had gross revenues of approximately \$3.64 billion; approximately \$5.36 billion in total assets; and approximately \$2.62 billion of shareholder equity. Horton is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Copies of such material can be obtained by mail from the public reference section of the SEC, 450 Fifth Street, Washington, D.C. 20549 at prescribed rates. In addition, such reports and other information may be obtained from the New York Stock Exchange.

KB: In November, 2002, KB purchased and developed approximately 8.19 acres within the District as Northtown Park, Section 8, containing 57 lots. KB subsequently purchased approximately 79.98 acres developed or being developed as The Lakes at Northtown, expected to contain a total of 310 single family lots, of which 273 are located within the District. As of April 1, 2012, The Lakes at Northtown consisted of: Section 1 (22.21 acres; 69 single family lots, of which 53 are located within the District), Section 2 (18.32 acres; 62 single family lots), Section 3 (9.38 acres; 50 single family lots) and Section 4 (12.93 acres; 68 total single family lots, of which 62 are located within the District). According to KB, construction of Section 5 (17.15 acres, 61 total single family lots, of which 45 are located within the District) is expected to begin in May 2012 and is expected to be completed in September 2012. KB stated that the average price of a completed home in The Lakes at Northtown is \$188,000 and is currently constructing homes that range in price approximately from \$152,950 to \$231,950 and range in square footage approximately from 1,376 to 3,728.

Village: Village is a Texas limited partnership whose general partner is Village @ Northtown General Partner, Inc., with Clifton E. Lind serving as President. Village purchased approximately 327 acres within the District through three separate acquisitions. Approximately 263 acres was acquired from PFLP for cash and a seven-year seller note, and approximately 27 acres was purchased from SVWW with seller financing. According to a representative of Village, both loans have been refinanced by loans from City Bank - Lubbock, and other entities affiliated with the principal owners. The principal amount of the loan from City Bank - Lubbock is \$21,500,000. The original loan matured on May 8, 2010, but has been renewed and extended several times and currently has a maturity date of January 20, 2013. Village is in compliance with the terms of the loan. The third tract, consisting of approximately 37 acres was purchased from DRLP by Jeffercindershan, Ltd., a Texas limited partnership whose general partner is Jeffercindershan General Partner, Inc., with Clifton E. Lind serving as President. The acquisition financing for the third tract was provided by cash and a one-year seller note which has been paid in full.

Morgan: Morgan, a Texas corporation, purchased 16.35 acres within the District from Techridge for the purpose of developing the Villas at Techridge apartment project, containing a total of 350 apartment units. The Villas at Techridge units are a mixture of one bedroom, two bedroom, and three bedroom units. Morgan began construction of the apartments in the fall of 2007 and completed construction in February, 2009. According to Morgan, acquisition of the 16.35 acres was cash provided by Morgan and development of the 16.35 acres was funded by a \$28,136,000 loan (the "Construction Loan") from Capmark located in Chicago, IL.

Techridge: Techridge, a Delaware limited partnership whose general partner is Kelly CT Spectrum B.C. Inc., a Delaware corporation, owns approximately 11.60 acres within the boundaries of the District. All of this property was originally developed by NWC with utility facilities and storm drainage. According to Techridge, it has plans to construct an apartment complex called Oaks at Techridge, containing a total of 336 units. Construction began in September 2011 and is expected to be completed in March 2013.

THE SYSTEM

Regulation

The District receives its water supply and wastewater treatment from the City of Austin ("the City" or "Austin") pursuant to the terms of the Consent Agreement (See "THE DISTRICT – City of Austin Consent Agreement").

Water Supply and Distribution

The District receives its potable water supply from Austin which, in turn, obtains water from three locations along the Colorado River. The District lies in Austin's North Pressure Zone, which gets water from two of the three water treatment plants serving the northern areas of Austin's System. The two water treatment plants serving the District have a combined firm yield of 110 million gallons-per-day ("mgd"), which is capable of serving the District at ultimate development.

Wastewater Collection and Treatment

Wastewater treatment service for the District is primarily provided by the Austin's Walnut Creek Interceptor and Wastewater Treatment Plant (the "Treatment Plant"). The Treatment Plant has a permitted capacity of 75 mgd, which is capable of serving the District at ultimate development. Current flows through the Treatment Plant are approximately 49 mgd. The District has constructed a system of force mains, gravity mains, and lift stations to transfer wastewater to the Walnut Creek Interceptor and Treatment Plant. The City has agreed to accept a pump-over of 1.0 mgd to the Walnut Creek Plant from the District. This system consists of 10, 12 and 14-inch force mains, 18-inch gravity main, and 1,200-gpm and 1,795 gpm lift stations located within the District. The District has recently experienced issues with the low flow lift station and was required to repair force main breaks in 2010, 2011, and 2012. Each of these appear to be unrelated, however, the District incurred a total repair cost of approximately \$400,000. The District is currently upgrading the lift station to extend its life and will begin to evaluate options to replace the force main in the 3rd quarter of 2012.

100-Year Flood Plain

According to the District's Engineer, approximately 125 acres of undeveloped land within the District are located within the 100-year flood plain, and are included in the land use table as undevelopable.

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Water and Wastewater Operations – Table 1

Rate and Fee Schedule

The District provides water and wastewater service to utility customers within the District and charges rates as set by the Board of Directors from time to time. In addition, the District collects certain tap fees from builders. The rates for water and wastewater service to utility customers of the District which are effective as of September 27, 2011:

Water & Wastewater Charges for Single Family Residential Customers (monthly billings)

In District Rates:

Basic Service rate (which includes solid waste disposal and recycling)	\$ 25.46 per residence
Monthly In-District Sewer Rate	\$ 6.23 per 1,000 gallons
Monthly In-District Water Rates	
0-7,000 gallons.....	\$4.29 per 1,000 gallons
7,001 –12,000.....	4.98
12,001 – 17,000.....	5.64
over 17,000.....	6.40

Water & Wastewater Charges for Commercial Customers & Multi-Family Customers (monthly billings)

In District Rates ^(a):

Basic Service Rate (which does not include solid waste disposal or recycling) \$ 15.50 per meter

Water Commodity Charge

per 1,000 gallons per month, where “Base” means the customer’s average water usage during the winter averaging period.

<u>Gallons Used</u>	<u>Commodity Charge</u>
0 – Base	\$ 4.29
over Base to Base x 1.50	4.98
over Base x 1.50 to Base x 1.75	5.64
over Base x 1.75	6.40

Sewer Commodity Charge..... \$ 6.23 per 1,000 gallons

(a) For multi-unit residential complexes which receive solid waste disposal or recycling services: \$15.50 per meter, plus \$13.76 per dwelling unit.

Monthly Irrigation Meter Rates

Basic Service Rate..... \$ 15.50 per meter

per 1,000 gallons per month, where “Base” means 7,000 gallons per LUE, based on irrigation meter size.

<u>Gallons Used</u>	<u>Commodity Charge</u>
0 – Base	\$ 4.29
over Base to Base x 1.50	4.98
over Base x 1.50 to Base x 1.75	5.64
over Base x 1.75	6.40

Rate per 1,000 gallons for usage during winter-averaging period.....\$ 6.40

Monthly In-District Fire Hydrant Rates per Fire Hydrant Meter

Service Availability Charge per Fire Hydrant Meter \$100.00 (minimum)

Commodity Charge:

(a) Standard Rate	\$ 4.29 per 1,000 gallons
(b) Rate during winter averaging period.....	6.40 per 1,000 gallons

Monthly Out-of-District Sewer Rate..... \$ 8.05 per 1,000 gallons

Operating Revenues and Expenses Statement - Table 2

The following statement sets forth in condensed form the historical operations of the District. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary has been prepared upon information obtained from the District's annual financial reports. Reference is made to such reports for further and more complete information.

	Fiscal Year Ended ^(a)					
	9/30/2011	9/30/2010	9/30/2009	9/30/2008	9/30/2007	9/30/2006
REVENUES						
Water and Wastewater Service	\$ 3,250,171	\$ 2,983,681	\$ 3,236,884	\$ 2,919,608	\$ 2,242,773	\$ 2,127,552
System Connection Fees	50,575	71,640	50,750	349,900	261,500	389,900
Property Tax Revenues	1,186,441	1,324,242	1,553,113	1,552,920	1,184,856	1,175,028
Park Fees	113,100	66,300	41,966	286,600	85,800	89,400
Park Grant	-	-	100,000	-	-	-
Interest Income	21,898	30,463	71,417	218,403	280,423	187,476
Miscellaneous	68,513	56,143	54,924	18,654	20,850	22,220
TOTAL REVENUES	\$ 4,690,698	\$ 4,532,469	\$ 5,109,054	\$ 5,346,085	\$ 4,076,202	\$ 3,991,576
EXPENDITURES						
Water, Wastewater & Garbage	\$ 2,630,998	\$ 2,347,651	\$ 2,368,011	\$ 2,064,765	\$ 1,616,603	\$ 1,427,344
Repairs and Maintenance	275,896	443,420	223,826	125,354	281,381	158,456
Utilities	16,527	14,428	16,165	18,538	8,065	11,300
Park Maintenance	664,390	591,207	515,827	767,946	304,997	248,030
Inspection Fees/Meter Purchases	3,319	9,469	33,159	75,595	40,850	69,050
General Manager Services	243,718	244,466	216,522	293,524	229,689	211,810
Legal Fees	173,351	189,291	182,318	127,987	90,184	99,840
Engineering Fees	350,490	224,738	53,832	54,717	40,897	27,726
Audit Fees	13,995	16,000	19,500	18,500	11,500	10,600
Restrictive Covenants	28,085	62,250	63,280	87,511	72,652	83,646
Security services	70,140	46,890	33,713	39,450	30,800	31,602
Tax Assessor/Collector Fees	7,352	7,806	10,498	10,173	7,093	8,270
Director Fees	30,781	23,091	21,799	14,210	11,788	13,080
Insurance	16,300	5,683	4,704	8,246	3,449	3,874
Accounting Fees	66,750	66,750	66,437	-	-	-
Financial Advisor Fees	-	872	1,011	-	-	-
Office Staff Expenses	-	-	-	-	-	-
Office Expenses	163,212	-	-	-	-	-
Other Consulting Fees	854	-	27,206	-	-	-
Other	80,163	34,627	34,440	22,900	29,179	40,717
Capital Outlay	767,364	785,437	463,594	13,081	122,954	135,043
TOTAL EXPENDITURES	\$ 5,603,685	\$ 5,114,076	\$ 4,355,842	\$ 3,742,497	\$ 2,902,081	\$ 2,580,388
NET REVENUES (DEFICIT)	\$ (912,987)	\$ (581,607)	\$ 753,212	\$ 1,603,588	\$ 1,174,121	\$ 1,411,188
Plus/(Less) Other Financing Sources	\$ -	\$ -	\$ 44,590	\$ -	\$ -	\$ 36,000
Fund Balance, beginning of yr	\$ 7,552,218	\$ 8,133,825	\$ 7,336,023	\$ 5,732,435	\$ 4,558,314	\$ 3,111,126
Fund Balance, end of yr	\$ 6,639,231	\$ 7,552,218	\$ 8,133,825	\$ 7,336,023	\$ 5,732,435	\$ 4,558,314

(a) Audited.

PROJECTED DEBT SERVICE REQUIREMENTS – TABLE 3

Northtown Municipal Utility District

\$3,890,000*

Unlimited Tax and Revenue Refunding Bonds, Series 2012

Dated Date: June 1, 2012

First Interest Payment Due: September 1, 2012

Year Ending 31-Dec	Current Debt Service Requirement	Less Refunded Debt Service	The Bonds*				Principal and Interest	Total Debt Service Requirements
			Principal (Due 9/01)	Interest (Due 3/01)	Interest (Due 9/01)	Total		
2012	\$ 2,304,581	\$ 77,869	\$ 45,000	\$ -	\$ 30,181	\$ 30,181	\$ 75,181	\$ 2,301,893
2013	2,333,058	155,739	25,000	59,913	59,913	119,825	144,825	2,322,144
2014	2,238,958	155,739	25,000	59,663	59,663	119,325	144,325	2,227,544
2015	2,266,395	370,739	80,000	59,413	219,413	278,825	358,825	2,254,481
2016	2,294,433	542,676	410,000	59,413	59,413	118,825	528,825	2,280,581
2017	2,199,288	432,644	315,000	53,263	53,263	106,525	421,525	2,188,169
2018	2,210,700	451,081	340,000	48,538	48,538	97,075	437,075	2,196,694
2019	2,274,863	308,381	210,000	43,438	43,438	86,875	296,875	2,263,356
2020	2,304,313	325,631	230,000	40,288	40,288	80,575	310,575	2,289,256
2021	2,124,550	316,913	230,000	36,838	36,838	73,675	303,675	2,111,313
2022	2,154,063	332,913	255,000	33,388	33,388	66,775	321,775	2,142,925
2023	2,151,513	322,913	250,000	29,563	29,563	59,125	309,125	2,137,725
2024	2,200,519	337,913	275,000	25,813	25,813	51,625	326,625	2,189,231
2025	2,198,381	326,638	270,000	21,000	21,000	42,000	312,000	2,183,744
2026	1,963,094	340,225	295,000	16,275	16,275	32,550	327,550	1,950,419
2027	1,737,400	352,625	320,000	11,113	11,113	22,225	342,225	1,727,000
2028	1,746,363	338,813	315,000	5,513	5,513	11,025	326,025	1,733,575
2029	1,402,200	-	-	-	-	-	-	1,402,200
2030	1,424,950	-	-	-	-	-	-	1,424,950
2031	992,625	-	-	-	-	-	-	992,625
	<u>40,522,242</u>	<u>5,489,449</u>	<u>3,890,000</u>	<u>603,425</u>	<u>793,606</u>	<u>1,397,031</u>	<u>5,287,031</u>	<u>40,319,824</u>

*Preliminary; subject to change.

FINANCIAL STATEMENT
(Unaudited as of April 1, 2012)

Assessed Value - Table 4

2011 Certified Assessed Valuation		\$425,721,916 ^(a)
Gross Debt Outstanding (after issuance of the Bonds)		\$ 28,305,000 ^(b)
Ratio of Gross Debt to 2011 Certified Assessed Valuation		6.65%
2011 Tax Rate		
	Debt Service	\$ 0.4618
	Maintenance	0.2882
	Total 2011 Tax Rate	<u>\$ 0.7500</u>
Debt Service Fund Balance (as of March 27, 2012)		\$ 2,379,712 ^(c)

Area of District: 1,224.34 acres
Estimated Population: 11,240 ^(d)

- (a) Assessed valuation of the District as of January 1, 2011 as certified by the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
(b) Includes the Bonds, excludes the Refunded Bonds. Preliminary; subject to change.
(c) Unaudited as of March 27, 2012. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
(d) Based upon 3.5 residents per occupied single family home and 2.5 residents per occupied multi-family unit. Of the 580 multi family units, 555 units are occupied as of March 1, 2012.

Unlimited Tax and Revenue Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
12/21/1985	Water, Sanitary Sewer and Drainage	\$ 69,443,000	\$ 34,230,000	\$ 35,213,000
12/21/1985	Contract Bonds	97,670,000	- ^(a)	97,670,000

- (a) See "The Bonds – Issuance of Additional Debt".

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Outstanding Bonds - Table 6

Dated Date	Purpose	Original Series	Original Principal Amount	Principal Amount Outstanding after the Issuance of the Bonds ^(a)
A. New Money Bonds				
03/01/94	Water and Sewer	1994	\$ 1,000,000	\$ -
05/01/97	Water and Sewer	1997	995,000	-
02/01/01	Water and Sewer	2001	2,100,000	-
08/01/02	Water and Sewer	2002	3,510,000	-
11/01/03	Water and Sewer	2003	3,770,000	-
04/01/06	Water and Sewer	2006	4,500,000	600,000
10/01/07	Water and Sewer	2007	6,005,000	5,380,000
04/01/09	Water and Sewer	2009	7,560,000	7,060,000
10/01/11	Water and Sewer	2011	4,790,000	4,790,000
Subtotal			\$ 34,230,000	\$ 17,830,000
B. Refunding Bonds				
10/01/04	Refunding	2004	\$ 2,505,000	\$ 775,000
11/01/10	Refunding	2010	5,895,000	5,810,000
06/01/12	Refunding	2012	3,890,000	3,890,000 ^(b)
Subtotal			\$ 12,290,000	\$ 10,475,000
Total			\$ 46,520,000	\$ 28,305,000

(a) Includes the Bonds, excludes the Refunded Bonds Preliminary; subject to change.

(b) The Bonds. Preliminary; subject to change.

Cash and Investment Balances (Unaudited as of March 27, 2012) - Table 7

General Fund	\$ 4,816,735
Debt Service Fund	2,379,712 ^(a)
Park Fund	1,314,781
Capital Projects Fund	3,486,128

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

Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined

termination date, are fully secured by obligations described in clause (1), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State primary government securities dealer or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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

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

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

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

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Directors detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value, and the fully accrued interest for the reporting period, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the

compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

Current Investments - Table 8

The District, as of March 27, 2012, is invested in Texpool, L.O.G.I.C., and Certificates of Deposit. This investment portfolio is generally representative of the District's investment practices. GASB Statement No.3 requires the District to assign risk categories for its investment, except those in which securities are not used as evidence of the investment. TexPool is a public funds investment pool. TexPool has not been assigned a risk category since the District has not issued securities, but rather it owns an undivided beneficial interest in the assets of TexPool. State law requires the District to mark its investments to market price each calendar quarter and upon the conclusion of each fiscal year, for the purpose of compliance with applicable accounting policies concerning the contents of the District's audited financial statements.

Investment Value as of March 27, 2012		
Cash	\$	1,218,873
TexPool		4,506,388
L.O.G.I.C.		5,289,984
Certificates of Deposit		982,111
Total Investments	\$	11,997,356

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Estimated Overlapping Debt Statement

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

Taxing Body	Gross Debt		% of Overlapping Net Debt	Amount of Overlapping Net Debt
	Amount	As of		
Travis County	\$ 604,794,987	3/1/2012	0.434%	\$ 2,622,292
Travis County Emergency Services District No. 2	1,820,000	3/1/2012	7.201%	131,057
Travis County Healthcare District	16,000,000	3/1/2012	0.438%	70,156
Pflugerville Independent School District	340,430,000	3/1/2012	6.182%	21,046,882
TOTAL ESTIMATED OVERLAPPING NET DEBT				\$ 23,870,386
The District ^(a)	\$ 28,305,000	6/1/2012	100.00%	<u>28,305,000</u>
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				<u>\$ 52,175,386</u>
Ratio of Estimated Direct and Overlapping Debt to 2011 Certified Assessed Valuation				12.26%

(a) Preliminary; subject to change. Includes the Bonds and excludes the Refunded Bonds.

Overlapping Taxes for 2011

Overlapping Entity	2011 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill ^(a)
	Travis County	Travis County
Travis County	\$0.485500	\$ 621
Travis County Emergency Services District No. 2	0.100000	128
Travis County Healthcare District	0.078900	101
Pflugerville Independent School District	1.480000	1,892
The District	0.750000	959
Total	<u>\$2.894400</u>	<u>\$ 3,700</u>

(a) Based on the 2011 average home value of \$127,845.

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TAX DATA

Classification of Assessed Valuation (a) - Table 9

Type Property	2011 ^(a)		2010 ^(a)		2009 ^(a)	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 359,155,809	84.85%	\$ 368,254,302	86.34%	\$ 369,447,746	85.02%
Multi Family Residence	33,957,193	8.02%	33,320,230	7.81%	33,261,199	7.65%
Vacant Lot	2,369,246	0.56%	2,632,996	0.62%	2,204,613	0.51%
Qualified Ag Land	-	0.00%	-	0.00%	-	0.00%
Non-Qualified Land	7,731,351	1.83%	8,785,632	2.06%	7,374,952	1.70%
Commercial Real Property	10,926,709	2.58%	10,832,145	2.54%	12,678,510	2.92%
Telephone Company	640,666	0.15%	111,870	0.03%	99,460	0.02%
Cable Television Company	102,121	0.02%	108,110	0.03%	103,950	0.02%
Commercial Personal Property	3,329,444	0.79%	1,012,431	0.24%	1,796,481	0.41%
Industrial Personal Property	75,929,624	17.94%	24,608,065	5.77%	75,415,610	17.35%
Residential Inventory	3,686,295	0.87%	3,300,082	0.77%	6,357,818	1.46%
Totally Exempt Property	1,007,686	0.24%	786,031	0.18%	1,398,396	0.32%
Less: Adjustments	(75,572,333)	-17.85%	(27,216,795)	-6.38%	(75,586,369)	-17.39%
Total	\$423,263,811	100.00%	\$426,535,099	100.00%	\$ 434,552,366	100.00%

(a) Reflects classification of assessed valuation as supplied by the Travis Central Appraisal District ("TCAD") prior to adjustments or exemptions. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by TCAD.

Tax Collections - Table 10

The following statement of tax collections reflects the historical tax collection experience of the District. Such summary has been prepared for inclusion herein based upon information from District reports and records of the District Tax Assessor/Collector. Reference is made to such reports and records for further and more complete information. See "Classification of Assessed Valuation" above.

Year	Assessed Valuation ^(a)	Tax Rate	Tax Levy	Current		Total		Year Ending
				Amount	%	Amount	%	
1997	\$ 39,530,168	\$ 0.5957	\$ 235,481	\$ 234,276	99.49%	\$ 234,276	99.49%	9/30/1998 ^(b)
1998	52,600,963	0.5957	313,344	309,580	98.80%	309,580	98.80%	9/30/1999 ^(b)
1999	63,111,800	0.6400	403,916	398,812	98.74%	401,290	99.35%	9/30/2000 ^(b)
2000	85,240,045	0.6400	545,536	538,802	98.77%	543,128	99.56%	9/30/2001 ^(b)
2001	106,890,553	0.6500	694,789	684,962	98.59%	697,402	100.38%	9/30/2002 ^(b)
2002	136,081,264	0.6500	884,528	862,922	97.56%	875,604	98.99%	9/30/2003 ^(b)
2003	175,127,410	0.7500	1,313,456	1,289,157	98.15%	1,315,294	100.14%	9/30/2004 ^(b)
2004	217,798,615	0.7500	1,633,492	1,615,505	98.90%	1,620,221	99.19%	9/30/2005 ^(b)
2005	257,839,127	0.7500	1,933,793	1,884,671	97.46%	1,885,004	97.48%	9/30/2006 ^(b)
2006	299,149,058	0.7500	2,243,618	2,220,419	98.97%	2,235,388	99.63%	9/30/2007 ^(b)
2007	357,239,412	0.7500	2,679,296	2,560,124	95.55%	2,593,289	96.79%	9/30/2008 ^(b)
2008	383,023,670	0.7500	2,872,678	2,855,769	99.41%	2,871,442	99.96%	9/30/2009 ^(b)
2009	434,241,694	0.7500	3,256,813	3,247,016	99.70%	3,260,375	100.11%	9/30/2010 ^(b)
2010	426,534,832	0.7500	3,199,013	3,165,528	98.95%	3,174,569	99.24%	9/30/2011 ^(b)
2011	425,721,916	0.7500	3,192,918	3,102,283	97.16%	3,110,892	97.43%	9/30/2012 ^(c)

(a) Assessed Valuation reflects the adjusted value at September 30th of each respective year as included in the audited financial statement.

(b) Audited.

(c) Unaudited. Reflects tax collections through March 1, 2012. Taxes were due January 31, 2012.

District Tax Rates – Table 11

	Tax Rates per \$100 Assessed Valuation					
	2011	2010	2009	2008	2007	2006
Debt Service	\$ 0.4618	\$ 0.4711	\$ 0.4468	\$ 0.3467	\$ 0.3025	\$ 0.3540
Maintenance	0.2882	0.2789	0.3032	0.4033	0.4475	0.3960
Total	\$ 0.7500	\$ 0.7500	\$ 0.7500	\$ 0.7500	\$ 0.7500	\$ 0.7500

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate or amount.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds and the Bonds, and any tax bonds which may be issued in the future. At an election held on December 21, 1985, voters within the District authorized a maintenance tax not to exceed \$1.50/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2012 maintenance and operations tax of \$0.2882/\$100 assessed valuation.

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the District's Tax Assessor/Collector based on the 2011, 2010, and 2009 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

Taxpayer	Type of Property	2011	2010	2009
Techridge Multi-Family	Apartments	\$ 25,959,099	\$ 25,117,348	\$ 23,515,031
AMB/TR Four 2001 Ltd	Land and Improvements	9,476,102	10,820,833	12,666,386
Village @ Northtown Ltd	Land and Improvements	5,555,426	5,795,678	3,912,201
KB Home Lone Star LP	Land and Improvements	3,482,822	1,848,963	1,500,210
Applied Materials Inc.	Commercial	3,396,786	(a)	3,477,476
AM Petroleum Inc.	Industrial	2,521,088	1,307,759	1,307,758
Techridge Spectrum BC LP	Land and Improvements	1,915,046	1,915,046	1,915,046
NGK Electronics	Commercial	949,125	(a)	(a)
Individual Homeowner	Land and Improvements	722,765	752,071	769,773
Federal National Mortgage Assn.	Foreclosure	678,767	728,198	(a)
Hanna/MaGee LP #1	Land and Improvements	(a)	1,161,498	2,065,571
Secretary of Housing & Urban Dev.	Land and Improvements	(a)	907,410	(a)
Continental Homes of Texas LP	Land and Improvements	(a)	(a)	1,336,183
Total		\$ 54,657,026	\$ 50,354,804	\$ 52,465,635
Percent of Certified Assessed Valuation		12.84%	11.81%	12.08%

(a) Not included in respective year.

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Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2011 Certified Assessed Valuation and utilize tax rates adequate to service the District's projected total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

Projected Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2012-2025).....	\$2,220,647
\$0.55 Tax Rate on the 2011 Certified Assessed Valuation of \$425,721,916 @ 95% collections produces	\$2,224,397
Projected Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2013)	\$2,322,144
\$0.58 Tax Rate on the 2011 Certified Assessed Valuation of \$425,721,916 @ 95% collections produces	\$2,345,728

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/12.....	\$ 2,301,893 (a)
Audited Debt Service Fund Balance as of 09/30/11.....	650,754 (b)
Series 2011 Capitalized interest	325,420 (c)
2011 Debt Service Tax Levy @ 95% collections produces	<u>1,867,685 (d)</u>
Total Available for Debt Service.....	<u>\$ 2,843,859</u>

(a) Interest requirements on the Bonds begin September 1, 2012.

(b) Audited as of September 30, 2011.

(c) Capitalized Interest included in Series 2011 bond proceeds, deposited into District's debt service fund on October 6, 2011.

(d) The District levied a 2011 debt service tax rate of \$0.4618.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds and the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS - Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS - Source of and Security for Payment." Under Texas law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations, if authorized by its voters. See "TAX DATA - Tax Rate Limitation."

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Travis Central Appraisal District (the "TCAD") has the responsibility for appraising property for all taxing units within Travis County, including the District.

Such appraised values whether certified or estimated are subject to review and change by the Travis Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board must be used by the District in establishing its tax roll and tax rate.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the appraisal district to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$1,500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain household goods, wares and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development organizations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. Goods, wares and merchandise (other than oil, gas or petroleum products) that are acquired in or imported into Texas and forwarded out of Texas within 175 days thereafter are also exempt. Property owned by a disabled veteran or a veteran who died while on active duty has been granted an exemption up to \$3,000 of assessed value. Partially exempt to between \$5,000 and \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or spouse or certain children. Disabled veterans who receive from the United States Department of Veterans Affairs, or its successors, a rating of 100% disabled are entitled to an exemption from taxation of the total appraised value of the resident's homestead. Also exempt, if approved by the Board of Directors of the District or through a process of petition and referendum by the District's voters, are residential homesteads of persons sixty-five (65) years or older and of certain disabled persons of not less than \$3,000 of appraised value or more. The District's tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

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

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

Goods-in-Transit: Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provisions permit local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. The District has elected to tax goods in transit.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the TCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and formally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. The chief appraiser uses the method he or she considers the most appropriate. Effective January 1, 2010, State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which

the property was appraised plus (c) the market value of all new improvements to the property.

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes for 2010". A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien

existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

Effect of FIRREA on Tax Collections

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. See "INVESTMENT CONSIDERATIONS - The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

LEGAL MATTERS

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

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

No-Litigation Certificate

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

VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS

Grant Thornton, L.L.P., a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the District its verification report indicating that it has performed certain procedures to verify, in accordance with standards established by the American Institute of Certified Public Accountants, the arithmetical accuracy of the information provided by the Financial Advisor relating to (a) the sufficiency of the anticipated receipts from the Federal Securities, together with the initial cash deposit, if any, to pay, when due, the principal and interest on the Refunded Bonds and (b) the "Yield" on the Federal Securities and on the Bonds. Such computations will be completed using certain assumptions and information provided by Southwest Securities on behalf of the District. Grant Thornton, L.L.P. has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Bonds.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (ii) 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 C -- 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, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information to the Municipal Securities Rulemaking Board (“MSRB”). Information will be available free of charge by the MSRB via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 of each year unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of bondholders; (3) Bond calls; (4) release, substitution, or sale of property securing repayment of the Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

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

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

Availability of Information from MSRB

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under "Annual Reports" and "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB and will be available to the public free of charge at www.emma.msrb.org.

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the past five years, the District has complied in all material respects with its continuing disclosure undertakings in accordance with the Rule.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Southwest Securities (the "Financial Advisor"), which firm was employed in 1997 as Financial Advisor to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance and sale of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Bonds.

UNDERWRITING

The Underwriters of the Bonds have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the District at an underwriting discount of \$_____ from the initial public offering prices therefore set forth on the inside cover page of this Official Statement. The Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public offering prices may be charged from time to time by the Underwriters.

OFFICIAL STATEMENT

Preparation

The District has no employees but engages various professionals and consultants to assist the District in the day-to-day activities of the District. See "THE DISTRICT". The Board of Directors in its official capacity has relied upon the below mentioned experts and sources in the preparation of this Official Statement. The information in this Official Statement was compiled and edited by the Financial Advisor. In addition to compiling and editing such information, the Financial Advisor has obtained the information set forth herein under the captions indicated from the following sources:

"THE DISTRICT - Village @ Northtown Ltd., KB Home Lone Star L.P. and Techridge Spectrum BC L.P." (collectively the "Developers"); 360 Professional Services, Inc. (the "Engineer"); "THE DEVELOPERS – Village @ Northtown Ltd., KB Home Lone Star L.P. and Techridge Spectrum BC L.P.," "THE DISTRICT – City of Austin Consent Agreement" Armbrust & Brown, PLLC; "THE SYSTEM" - Engineer; "FINANCIAL STATEMENT" - Travis Central Appraisal District and Records of the District ("Records"); "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water And Wastewater Operations" - Audits, Records and Tax Assessor/Collector; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAXING PROCEDURES," and "TAX MATTERS" - McCall, Parkhurst & Horton L.L.P.

Consultants

In approving this Official Statement, the District has relied upon the following consultants:

The Engineer: The information contained in the Official Statement relating to engineering matters and to the description of the System and, in particular, that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM," has been provided by 360 Professional Services, Inc., and has been included in reliance upon the authority of said firm in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the certified assessed valuation of property in the District and, in particular, such information contained in the section captioned "FINANCIAL STATEMENT," has been provided by the Travis Central Appraisal District, in reliance upon their authority in the field of appraising and tax assessing.

Auditor: The District's financial statements for fiscal year ending September 30, 2011 were audited by McCall, Gibson, Swedlund, Barfoot P.L.L.C., Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2011 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

Tax Assessor/Collector: The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Ms. Tina Morton in reliance upon her authority in the field of tax assessing and collecting.

Official Statement "Deemed Final"

For purposes of compliance with Rule 15c(2)-12 of the Securities Exchange Commission, this document, as the same may be supplemented or corrected by the District from time-to-time, may be treated as an Official Statement with respect to the Bonds described herein "deemed final" by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "FINAL OFFICIAL STATEMENT" of the District with respect to the Bonds, as that term is defined in Rule 15c(2)-12.

Annual Audits

Under State Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year so long as the District has bonds outstanding. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of charges prescribed by the Texas Facilities Commission.

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

/s/ Robin Campbell
President, Board of Directors

/s/ Alex Martinez
Secretary, Board of Directors

PHOTOGRAPHS

The following photographs were taken in the District in August 2011. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."











APPENDIX A
Audited Financial Statement

The information contained in this appendix has been excerpted from the audited financial statements of Northtown Municipal Utility District for the fiscal year ended September 30, 2011. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**NORTHTOWN
MUNICIPAL UTILITY DISTRICT**

YEAR ENDED SEPTEMBER 30, 2011

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

**NORTHTOWN
MUNICIPAL UTILITY DISTRICT**

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2011**

NORTHTOWN MUNICIPAL UTILITY DISTRICT

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF TRAVIS

I, Robin Campbell, President of the
(Name of Duly Authorized District Representative)

NORTHTOWN MUNICIPAL UTILITY DISTRICT
(Name of District)

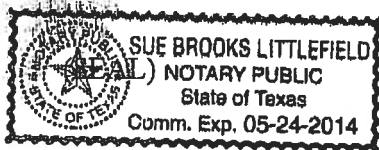
hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **24th day of January, 2012**, its annual audit report for the fiscal period ended **September 30, 2011**, and that copies of the annual audit report have been filed in the District's office, located at:

100 Congress Avenue, Suite 1300 Austin, TX 78701
(Address of District's Office)

This filing affidavit and the attached copy of the audit report will be submitted to the Texas Commission on Environmental Quality to satisfy the annual filing requirements of Texas Water Code Section 49.194.

Date: January 24, 2012 By: [Signature]
(Signature of District Representative)
Robin Campbell, President
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this 24th day of January, 2012.



[Signature]
(Signature of Notary)

My Commission Expires On: _____,
Notary Public in the State of Texas

INDEPENDENT AUDITOR'S REPORT

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

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

Board of Directors
Northtown Municipal Utility District
Travis County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Northtown Municipal Utility District (the "District"), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with auditing standards generally accepted as promulgated within the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule – General Fund is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

January 24, 2012

Member of
American Institute of Certified Public Accountants
Texas Society of Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Northtown Municipal Utility District (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2011. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the unassigned portion of the fund balance was \$5,412,921 and \$1,226,310 was assigned to use for a budgeted General Fund deficit during the year ending September 30, 2012. The total General Fund balance was \$6,639,231, a decrease of \$912,987 from the previous fiscal year. General fund revenues increased from \$4,532,469 in the previous fiscal year to \$4,690,698 in the current fiscal year due to an increase in service account billings.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$658,343 in the previous fiscal year to \$650,754 in the current fiscal year. Debt service fund revenues increased from \$1,950,762 in the previous fiscal year to \$2,003,627 in the current fiscal year due to an increase in the District assessed valuation and tax rate allocated to the debt service fund.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$639,948 in the previous fiscal year to \$629,996 in the current fiscal year. The District expended \$12,543 for bond-related services during the fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$15,646. Net assets increased from \$16,689,712 to \$16,705,358.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created, organized and established on August 14, 1985, pursuant to the provisions of Chapter 54 of the Texas Water Code. The District is a political subdivision of the State of Texas and operates under an elected board. The District was created to provide water, wastewater and storm drainage facilities to serve the acreage within its boundaries, all of which lie within Travis County and within the extra-territorial jurisdiction of the City of Austin. The District receives wholesale water and wastewater service from the City of Austin.

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

Summary Statement of Net Assets

	Governmental Activities		Change Increase (Decrease)
	2011	2010	
Current and other assets	\$ 9,001,938	\$ 9,991,061	\$ (989,123)
Capital and non-current assets	32,083,138	31,960,210	122,928
Total Assets	41,085,076	41,951,271	(866,195)
Current Liabilities	1,988,367	2,189,178	(200,811)
Long-term Liabilities	22,391,351	23,072,382	(681,031)
Total Liabilities	24,379,718	25,261,560	(881,842)
Invested in Capital Assets			
net of related debt	9,441,783	8,537,777	904,006
Restricted	604,276	587,788	16,488
Unrestricted	6,659,299	7,564,147	(904,848)
Total Net Assets	\$ 16,705,358	\$ 16,689,712	\$ 15,646

The District's combined net assets increased by \$15,646 to \$16,705,358 from the previous year amount of \$16,689,712. Some of these assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net assets, which can be used to finance day to day operations, totaled \$6,659,299.

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

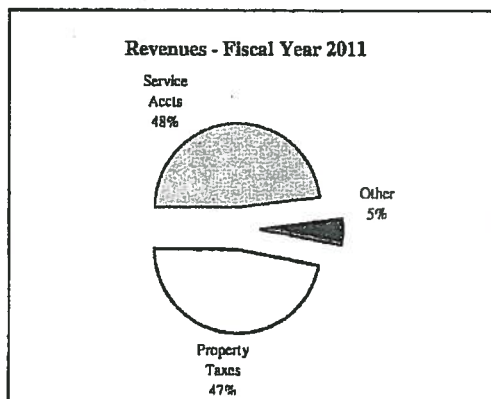
Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2011	2010	
Service accounts	\$ 3,250,171	\$ 2,983,681	\$ 266,490
Property taxes	3,211,042	3,267,231	(56,189)
Other	260,147	232,065	28,082
Total Revenues	6,721,360	6,482,977	238,383
Water/wastewater/garbage	2,630,998	2,347,651	283,347
Other	2,219,183	1,999,669	219,514
Debt Service	929,930	1,107,295	(177,365)
Depreciation/amortization	925,603	866,950	58,653
Total Expenses	6,705,714	6,321,565	384,149
Change in Net Assets	15,646	161,412	(145,766)
Beginning Net Assets	16,689,712	16,528,300	161,412
Ending Net Assets	\$ 16,705,358	\$ 16,689,712	\$ 15,646

Revenues were \$6,721,360 for the fiscal year ended September 30, 2011 while expenses were \$6,705,714. Net assets increased \$15,646.

Property tax revenue in the current fiscal year totaled \$3,250,171. Property tax revenue is derived from taxes being levied based upon the assessed value of real and personal property within the District. Property taxes levied for the 2010 tax year (September 30, 2011 fiscal year) were based upon a current adjusted assessed value of \$426,535,099 and a tax rate of \$0.75 per \$100 of assessed valuation. Property taxes levied for the 2009 tax year (September 30, 2010 fiscal year) were based upon an adjusted assessed value of \$434,552,366 and a tax rate of \$0.75 per \$100 of assessed valuation. The District's primary revenue sources are service account fees and property taxes.



NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds by Year

	2011	2010	2009	2008
Cash	\$ 536,353	\$ 924,805	\$ 544,927	\$ 187,797
Cash equivalents and investments	7,709,859	8,494,587	9,369,256	9,398,250
Receivables	2,160,372	1,970,811	2,297,384	1,973,869
Total Assets	<u>\$ 10,406,584</u>	<u>\$ 11,390,203</u>	<u>\$ 12,211,567</u>	<u>\$ 11,559,916</u>
Accounts payable	422,517	535,954	661,439	342,367
Other payables	2,014,865	1,978,963	1,999,307	2,631,351
Deferred revenue	49,221	24,777	28,339	48,053
Total Liabilities	<u>2,486,603</u>	<u>2,539,694</u>	<u>2,689,085</u>	<u>3,021,771</u>
Restricted	1,280,750	1,298,291	1,388,657	1,202,122
Assigned	1,226,310	-	-	-
Unassigned	5,412,921	7,552,218	8,133,825	7,336,023
Total Fund Balance	<u>7,919,981</u>	<u>8,850,509</u>	<u>9,522,482</u>	<u>8,538,145</u>
Total Liabilities and Fund Balances	<u>\$ 10,406,584</u>	<u>\$ 11,390,203</u>	<u>\$ 12,211,567</u>	<u>\$ 11,559,916</u>

For the fiscal year ended September 30, 2011, the District's governmental funds reflect a combined fund balance of \$7,919,981.

This fund balance includes a \$912,987 decrease to the General Fund.

The Debt Service Fund reflects a decrease of \$7,589 in fiscal year 2011. The Debt Service Fund remitted bond principal of \$1,075,000 and interest of \$936,502. More detailed information about the District's debt is presented in the *Notes to the Basic Financial Statements*.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$9,952 decrease in fund balance for fiscal year 2011. The District did not purchase infrastructure during the current fiscal year.

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating expenditures. The Board of Directors initially adopted a budget on September 28, 2010, and finally amended the budget on June 28, 2011. The amended budget included revenues of \$4,433,079 as compared to expenditures of \$6,022,079. When comparing actual to budget, the District had a positive variance of \$676,013. This positive variance is the result of a delay in the start of construction projects. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

CAPITAL ASSETS

The District's governmental activities invested \$30,531,548 in land and infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	9/30/2011	9/30/2010
Capital Assets:		
Land and easements	\$ 833,376	\$ 833,376
Construction in progress	72,427	785,437
Water, wastewater and drainage	31,151,474	31,122,038
Common and recreation areas	3,439,322	2,011,365
Less: Accumulated Depreciation	(4,965,051)	(4,163,554)
Total Net Capital Assets	<u>\$ 30,531,548</u>	<u>\$ 30,588,662</u>

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

LONG TERM DEBT

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

	Bonds Payable
Series 2004	\$ 1,465,000
Series 2006	3,800,000
Series 2007	5,380,000
Series 2009	7,060,000
Series 2010	5,810,000
Total	<u>\$ 23,515,000</u>

The District owes approximately \$23.5 million to bondholders. During the year, the principal balance was reduced by \$1,075,000. More detailed information about the District's long-term debt is presented in the *Notes to the Basic Financial Statements*.

NORTHTOWN MUNICIPAL UTILITY DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS SEPTEMBER 30, 2011

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value for 2011 is approximately \$499 million and the net taxable value is approximately \$423 million. The fiscal year 2012 tax rate is \$0.75 on each \$100 of taxable value. Approximately 38% of the property tax will fund general operating expenses, and approximately 62% of the property tax will be set aside for debt service fund expenditures.

The adopted budget for fiscal year 2012 projects an General Fund fund balance decrease of \$1,226,310.

REQUESTS FOR INFORMATION

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

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BASIC FINANCIAL STATEMENTS

NORTHTOWN MUNICIPAL UTILITY DISTRICT
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Assets
ASSETS						
Cash and cash equivalents:						
Cash	\$ 536,353	\$ -	\$ -	\$ 536,353	\$ -	\$ 536,353
Investments maturing within 3 months	5,024,469	651,062	1,338,112	7,013,643	-	7,013,643
Restricted cash equivalent investments	-	-	696,216	696,216	-	696,216
Receivables:						
Service accounts, net of provision for uncollectible accounts	660,606	-	-	660,606	-	660,606
Taxes, no provision for uncollectible accounts	20,068	29,153	-	49,221	-	49,221
Interest	2,554	-	6	2,560	-	2,560
Interfund receivables	1,404,646	-	-	1,404,646	(1,404,646)	-
Other	32,667	-	-	32,667	-	32,667
Fiscal security deposit	10,672	-	-	10,672	-	10,672
Deferred charges, net of accumulated amortization	-	-	-	-	1,551,590	1,551,590
Capital assets, net of accumulated depreciation -						
Land and easements	-	-	-	-	833,376	833,376
Construction in progress	-	-	-	-	72,427	72,427
Common & Recreation Areas	-	-	-	-	2,435,690	2,435,690
Water/Wastewater/Drainage Facilities	-	-	-	-	27,190,055	27,190,055
TOTAL ASSETS	\$ 7,692,035	\$ 680,215	\$ 2,034,334	\$ 10,406,584	30,678,492	41,085,076
LIABILITIES						
Accounts payable	\$ 422,517	\$ -	\$ -	\$ 422,517	-	422,517
Retainage payable	7,540	-	-	7,540	-	7,540
Refundable deposits	602,679	-	-	602,679	-	602,679
Deferred revenue-taxes	20,068	29,153	-	49,221	(49,221)	-
Interfund payables	-	308	1,404,338	1,404,646	(1,404,646)	-
Accrued interest payable	-	-	-	-	75,631	75,631
Bonds payable -						
Due within one year	-	-	-	-	880,000	880,000
Due after one year	-	-	-	-	22,391,351	22,391,351
TOTAL LIABILITIES	1,052,804	29,461	1,404,338	2,486,603	21,893,115	24,379,718
FUND BALANCE / NET ASSETS						
Fund balances:						
Restricted for debt service	-	650,754	-	650,754	(650,754)	-
Restricted for capital projects	-	-	629,996	629,996	(629,996)	-
Assigned for 2012 budget deficits	1,226,310	-	-	1,226,310	(1,226,310)	-
Unassigned	5,412,921	-	-	5,412,921	(5,412,921)	-
TOTAL FUND BALANCES	6,639,231	650,754	629,996	7,919,981	(7,919,981)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,692,035	\$ 680,215	\$ 2,034,334	\$ 10,406,584		
Net assets:						
Invested in capital assets, net of related debt					\$ 9,441,783	\$ 9,441,783
Restricted for debt service					604,276	604,276
Unrestricted					6,659,299	6,659,299
TOTAL NET ASSETS					\$ 16,705,358	\$ 16,705,358

The accompanying notes are an integral part of this statement.

NORTHTOWN MUNICIPAL UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
REVENUES:						
Property taxes, including						
penalties and interest	\$ 1,186,441	\$ 2,000,157	\$ -	\$ 3,186,598	\$ 24,444	\$ 3,211,042
Service revenues, including penalties	3,250,171	-	-	3,250,171	-	3,250,171
Park fees	113,100	-	-	113,100	-	113,100
System connection/inspection fees	50,575	-	-	50,575	-	50,575
Interest	21,898	3,470	2,591	27,959	-	27,959
Other	68,513	-	-	68,513	-	68,513
TOTAL REVENUES	4,690,698	2,003,627	2,591	6,696,916	24,444	6,721,360
EXPENDITURES / EXPENSES:						
Current:						
Water/wastewater purchases	2,133,003	-	-	2,133,003	-	2,133,003
Garbage collection fees	497,995	-	-	497,995	-	497,995
Park maintenance	664,390	-	-	664,390	-	664,390
General manager fees	243,718	-	-	243,718	-	243,718
Repairs and maintenance	244,238	-	-	244,238	-	244,238
Restrictive covenants	28,085	-	-	28,085	-	28,085
Inspection/connection fees	3,319	-	-	3,319	-	3,319
Utilities	16,527	-	-	16,527	-	16,527
Chemicals	31,658	-	-	31,658	-	31,658
Office expenditures	163,212	-	-	163,212	-	163,212
Security services	70,140	-	-	70,140	-	70,140
Director fees, including payroll taxes	30,781	-	-	30,781	-	30,781
Legal fees	173,351	-	-	173,351	-	173,351
Engineering fees	350,490	-	-	350,490	-	350,490
Accounting fees	66,750	-	-	66,750	-	66,750
Audit fees	13,995	-	-	13,995	-	13,995
Insurance	16,300	-	-	16,300	-	16,300
Tax appraisal/collection	7,352	12,418	-	19,770	-	19,770
Financial advisor fees	854	1,442	-	2,296	-	2,296
Other consulting fees	-	-	-	-	-	-
Other	80,163	-	-	80,163	-	80,163
Debt service:						
Bond principal	-	1,075,000	-	1,075,000	(1,075,000)	-
Bond interest	-	936,502	-	936,502	(7,772)	928,730
Fiscal agent fees	-	1,200	-	1,200	-	1,200
Bond issuance costs	-	254,562	-	254,562	(254,562)	-
Capital outlay	767,364	-	12,543	779,907	(779,907)	-
Depreciation	-	-	-	-	801,497	801,497
Amortization	-	-	-	-	124,106	124,106
TOTAL EXPENDITURES / EXPENSES	5,603,685	2,281,124	12,543	7,897,352	(1,191,638)	6,705,714
Excess / (deficiency) of revenues over / (under) expenditures / expenses	(912,987)	(277,497)	(9,952)	(1,200,436)	1,216,082	15,646
OTHER FINANCING SOURCES / (USES)						
Proceeds from bond refunding	-	5,895,000	-	5,895,000	(5,895,000)	-
Payment to refunding agent	-	(5,961,403)	-	(5,961,403)	5,961,403	-
Bond premium	-	336,311	-	336,311	(336,311)	-
TOTAL OTHER FINANCING SOURCES / (USES)	-	269,908	-	269,908	(269,908)	-
Change in fund balances / net assets	(912,987)	(7,589)	(9,952)	(930,528)	946,174	15,646
FUND BALANCE / NET ASSETS:						
Beginning of the year	7,552,218	658,343	639,948	8,850,509	7,839,203	16,689,712
End of the year	\$ 6,639,231	\$ 650,754	\$ 629,996	\$ 7,919,981	\$ 8,785,377	\$ 16,705,358

The accompanying notes are an integral part of this statement.

**NOTES TO THE BASIC
FINANCIAL STATEMENTS**

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

1. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - Northtown Municipal Utility District (the "District"), was created, organized and established on August 14, 1985, pursuant to the provisions of Chapter 54 of the Texas Water Code. The District is a political subdivision of the State of Texas and operates under an elected Board of Directors.

The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB") Statement No. 14 and No. 39 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 - Government-wide and Fund Financial Statements - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition a budgetary comparison statement is presented that compares the adopted and amended General Fund budget with actual results.

- **Government-wide Statements:**

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

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

- **Government-wide Statements - continued:**

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

- **Fund Financial Statements:**

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

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

- **General Fund** - The General Fund accounts for financial resources in use for general types of operations which are not encompassed within other funds. This fund is established to account for resources devoted to financing the general services that the District provides for its residents. Tax revenues and other sources of revenue used to finance the fundamental operations of the District are included in this fund.
- **Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs.
- **Capital Projects Fund** - The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Basis of Accounting

• **Governmental Funds**

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

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

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

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

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

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

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting - A budget was adopted on September 28, 2010, and finally amended on June 28, 2011, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes.

Cash and Cash Equivalents - Includes cash on deposit as well as investments with maturities of three months or less. The investments, consisting of common trust funds, money market funds, an external local governmental investment pool and obligations in the State Treasurer's Investment Pool are recorded at cost, which approximates fair market value.

Investments - Investments consisting of certificates of deposits are recorded at cost which approximates fair market value.

Capital Assets - Capital assets, which include land, easements and recreation areas are reported in the government-wide column in the Statement of Net Assets. Public domain ("infrastructure") capital assets, including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. Interest incurred during construction of capital facilities is not capitalized.

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

<u>Asset</u>	<u>Years</u>
Recreation Areas	5 - 30
Water/Wastewater/Drainage Facilities	50

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

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

1. SIGNIFICANT ACCOUNTING POLICIES (continued) -

Long-Term debt (continued) –

method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

Fund Equity - The District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 11 for additional information on those fund balance classifications.

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

Subsequent Events – In preparing these financial statements, management has evaluated and disclosed all material subsequent events through January 24, 2012, which is the date these statements were available to be issued.

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS -

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

Fund balances - total governmental funds		\$ 7,919,981
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds -		
Deferred charges, net of accumulated amortization		1,551,590
Land	\$ 833,376	
Construction in progress	72,427	
Capital assets	34,590,796	
Less: Accumulated depreciation	(4,965,051)	30,531,548
Revenue is recognized when earned in the government statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available		49,221
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds -		
Bonds payable	(23,515,000)	
Issuance discount	498,093	
Issuance premium	(317,043)	
Deferred charges, net of accumulated amortization	62,599	
Accrued interest	(75,631)	(23,346,982)
Net assets of governmental activities		<u>\$ 16,705,358</u>

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

Changes in Fund Balances - Governmental Funds		\$ (930,528)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report -		
Capital expenditures in period purchased	\$ 779,907	
Interest expenditures in year paid	7,772	
Principal in year paid	1,075,000	
Tax revenue when collected	24,444	
Bond issuance costs in year paid	254,562	
Bond sales and related bond discount as other financing source/(use)	(269,908)	1,871,777
Governmental funds do not report -		
Depreciation	(801,497)	
Amortization	(124,106)	(925,603)
Net assets of governmental activities		<u>\$ 15,646</u>

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

3. CASH AND INVESTMENTS

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

Cash - At September 30, 2011, the carrying amount of the District's deposits was \$536,353 and the bank balance was \$652,872. The bank balance was covered by federal depository insurance and other pledged collateral.

Investments -

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

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

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

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

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

3. CASH AND INVESTMENTS (continued) -

At September 30, 2011, the District held the following investments:

Investment	Fair Market Value at 9/30/2011	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)		
Texpool	\$ 2,246,422	\$ 2,246,422	\$ -	\$ -	AAAm	Standard & Poors
LOGIC	3,785,110	1,795,936	651,062	1,338,112	AAAm	Standard & Poors
Wells Fargo MM	696,216	-	-	696,216	AAAm	Standard & Poors
Certificates of deposit	982,111	982,111	-	-	Various	Various
	<u>\$ 7,709,859</u>	<u>\$ 5,024,469</u>	<u>\$ 651,062</u>	<u>\$ 2,034,328</u>		

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

(2) Restricted for Purchase of Capital Assets.

The District invests in Texpool and LOGIC, external investment pools that are not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of Texpool. Federated Investors manages the daily operations of Texpool under a contract with the Comptroller. First Southwest Asset Management, Inc. and JPMorgan Chase manage the daily operations of LOGIC. The fair value of the District's position in the pool is the same as the value of the pool shares.

Concentration of credit risk. In accordance with the District's investment policy, investments in individual securities are to be limited to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio. As of September 30, 2011, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2011, the District's bank deposits were covered as follows:

	Balance
FDIC insured deposits	\$ 388,192
Collateralized deposits:	
Collateral held by pledging bank's trust department in the District's name	264,680
Collateral held by pledging bank's trust department, not in the District's name	-
Uninsured and uncollateralized deposits	-
Total deposits	<u>\$ 652,872</u>

NORTHTOWN MUNICIPAL UTILITY DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

4. PROPERTY TAXES

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Travis Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Travis County Tax Assessor Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 28, 2010.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2010 tax roll. The tax rate, based on total taxable assessed valuation of \$426,535,099 was \$0.75 on each \$100 valuation and was allocated \$0.2789 to the General Fund and \$0.4711 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.50 was established by the voters on December 21, 1985.

Property taxes receivable at September 30, 2011, consisted of the following:

	General Fund	Debt Service Fund	Total
Current year levy	\$ 12,452	\$ 21,033	\$ 33,485
Prior years' levies	7,616	8,120	15,736
	<u>\$ 20,068</u>	<u>\$ 29,153</u>	<u>\$ 49,221</u>

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

5. INTERFUND ACCOUNTS

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds are made, is as follows at September 30, 2011:

	Interfund	
	Receivable	Payable
General Fund -		
Debt Service Fund	\$ 308	\$ -
Capital Projects Fund	1,404,338	-
Debt Service Fund -		
General Fund	-	308
Capital Projects Fund -		
General Fund	-	1,404,338
	<u>\$ 1,404,646</u>	<u>\$ 1,404,646</u>

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets follows:

	Balance 9/30/2010	Additions	Deletions	Balance 9/30/2011
Capital assets not being depreciated-				
Land and Easements	\$ 833,376	\$ -	\$ -	\$ 833,376
Construction in progress	785,437	50,439	(763,449)	72,427
Total capital assets not being depreciated	1,618,813	50,439	(763,449)	905,803
Capital assets being depreciated-				
Water, Wastewater and Drainage Facilities	31,122,038	29,436	-	31,151,474
Recreation areas	2,011,365	1,427,957	-	3,439,322
Total capital assets being depreciated	33,133,403	1,457,393	-	34,590,796
Less accumulated depreciation for-				
Water, Wastewater and Drainage Facilities	(3,338,095)	(623,324)	-	(3,961,419)
Recreation areas	(825,459)	(178,173)	-	(1,003,632)
Total accumulated depreciation	(4,163,554)	(801,497)	-	(4,965,051)
Total capital assets being depreciated, net of accumulated depreciation	28,969,849	655,896	-	29,625,745
Total capital assets, net	\$ 30,588,662	\$ 706,335	\$ (763,449)	\$ 30,531,548

7. BONDED DEBT

The following is a summary of bond transactions of the District for the year ended September 30, 2011:

	Unlimited Tax and Revenue Bonds
Bonds payable at October 1, 2010	\$ 24,590,000
Bonds issued	5,895,000
Bonds retired	(6,970,000)
Bond discount, net of accumulated amortization	(500,291)
Bond premium, net of accumulated amortization	319,242
Deferred charges, net of accumulated amortization	(62,600)
Bonds payable at September 30, 2011	\$ 23,271,351

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

7. BONDED DEBT (continued) -

Bonds payable at September 30, 2011, were comprised of the following individual issues:

Unlimited Tax and Revenue Bonds:

\$3,800,000 – 2006 Unlimited Tax and Revenue Bonds payable serially through the year 2028 at interest rates which range from 3.50% to 5.00%.

\$5,380,000 – 2007 Unlimited Tax and Revenue Bonds payable serially through the year 2030 at interest rates which range from 3.60% to 4.00%. Bonds maturing September 1, 2015 are subject to redemption prior to maturity in whole or from time to time in part, on September 1, 2014 or on any date thereafter. Bonds maturing September 1, 2030 are subject to mandatory sinking fund redemption.

\$7,060,000 – 2009 Unlimited Tax and Revenue Bonds payable serially through the year 2031 at interest rates which range from 4.00% to 5.00%. Bonds maturing September 1, 2017 are subject to redemption prior to maturity in whole or from time to time in part, on September 1, 2016 or on any date thereafter. Bonds maturing September 1, 2027, 2029 and 2031 are subject to mandatory sinking fund redemption.

Unlimited Tax and Revenue Refunding Bonds:

\$1,465,000 – 2004 Unlimited Tax Refunding Bonds payable serially through the year 2018 at interest rates which range from 1.55% to 4.00%.

\$5,810,000 – 2010 Unlimited Tax and Revenue Refunding Bonds payable serially through the year 2026 at interest rates which range from 2.00% to 4.00%. Bonds maturing in the year 2017 through 2026, inclusive, are subject to redemption prior to maturity in whole or from time to time in part, on September 1, 2016 or on any date thereafter.

The annual requirements to amortize all bonded debt at September 30, 2011, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2012	\$ 880,000	\$ 1,149,300	\$ 2,029,300
2013	1,140,000	919,389	2,059,389
2014	1,085,000	878,088	1,963,088
2015	1,145,000	838,426	1,983,426
2016	1,210,000	794,563	2,004,563
2017-2021	6,305,000	3,258,384	9,563,384
2022-2026	6,985,000	1,940,105	8,925,105
2027-2031	4,765,000	589,213	5,354,213
	<u>\$ 23,515,000</u>	<u>\$ 10,367,468</u>	<u>\$ 33,882,468</u>

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

7. BONDED DEBT (continued) -

Unlimited tax bonds authorized but not issued as of September 30, 2011, were \$40,003,000.

\$650,754 is available in the Debt Service Fund to service the bonded debt.

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

On November 30, 2010, the District issued its Series 2010 Unlimited Tax and Revenue Refunding Bonds in the amount of \$5,895,000 (par value) with interest rates of 2.0% to 4.0% to currently refund \$340,000 of Series 2001 unlimited tax and revenue bonds, \$2,640,000 of Series 2002 unlimited tax and revenue bonds and \$2,915,000 of Series 2003 unlimited tax and revenue bonds. The bonds had maturity dates of September 1, 2012 through September 1, 2026. The first optional redemption date is September 1, 2012. The unlimited tax and revenue refunding bonds were issued at par plus a re-offering discount and, after paying issuance costs of \$254,562, the net proceeds were \$5,961,403. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the Series 2001, Series 2002 and Series 2003 bonds are paid. The advance refunding met the requirements of an in-substance debt defeasance and the Series 2001, Series 2002 and Series 2003 bonds were removed from bonds payable.

As a result of the advance refunding, the District reduced its cumulative debt service requirements which resulted in a net present value savings of \$284,136, or 4.82% of the principal amount of the refunded bonds.

8. CAPITAL RECOVERY FEES

Capital recovery fees as assessed by the City of Austin (the "City") are collected on tap connections for each water and wastewater connection within the District as required under the District's consent agreement with the City. Collected fees are submitted to the City. The District collected approximately \$105,100 in capital recovery fees during the year ending September 30, 2011 and remitted approximately \$100,300.

9. COMMITMENTS

The District had commitments for construction projects of approximately \$308,263 at September 30, 2011. This consisted of \$256,378 for a lift station project and \$51,885 for a fencing project.

The developer of the land within the District has incurred costs related to construction of facilities. Such costs may be reimbursable to the developer by the District from proceeds of future District bond issues, subject to approval by the Texas Commission on Environmental Quality. The District, as of September 30, 2011, has recorded no liability pertaining to such costs.

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

10. RISK MANAGEMENT

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

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

11. FUND BALANCES

For the period ended September 30, 2011, the District adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact. The District had no such amounts.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District has assigned \$5,412,921 for a General Fund budgeted deficit for fiscal year ending September 30, 2012.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2011**

11. FUND BALANCES (continued) –

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

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

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

12. SUBSEQUENT EVENT

On October 6, 2011, the District issued \$4,790,000 of Unlimited Tax and Revenue Bonds, Series 2011, at interest rates ranging from 2.0% to 3.75%. Proceeds from the bond sale were used to reimburse the Developer for a portion of the District's share of the construction cost of the utilities serving Lakes at Tech Ridge, Lakes of Northtown Sections 1 – 3 and a low flow lift station project. Additional proceeds were used to cover issuance costs of the bonds. The final maturity date of the bonds is September 1, 2031.

REQUIRED SUPPLEMENTAL INFORMATION

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2011**

	<u>Actual</u>	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Property taxes, including penalties and interest	\$ 1,186,441	\$ 1,186,673	\$ 1,174,197	\$ 12,244
Service revenues, including penalties	3,250,171	2,953,516	3,009,153	241,018
Park fees	113,100	7,200	110,500	2,600
System connection/inspection fees	50,575	28,800	42,000	8,575
Interest	21,898	36,000	31,154	(9,256)
Other	68,513	27,000	66,075	2,438
TOTAL REVENUES	<u>4,690,698</u>	<u>4,239,189</u>	<u>4,433,079</u>	<u>257,619</u>
EXPENDITURES-				
Current:				
Water/wastewater purchases	2,133,003	1,936,433	2,041,646	(91,357)
Garbage collection fees	497,995	494,564	497,380	(615)
Park maintenance	664,390	1,288,800	1,175,589	511,199
General manager fees	243,718	250,600	246,051	2,333
Repairs and maintenance	244,238	213,000	281,065	36,827
Restrictive covenants	28,085	70,770	28,085	-
Inspection/connection fees	3,319	3,400	2,935	(384)
Utilities	16,527	20,100	16,252	(275)
Chemicals	31,658	65,000	38,657	6,999
Office expenditures	163,212	-	163,525	313
Security services	70,140	60,000	61,890	(8,250)
Director fees, including payroll taxes	30,781	26,800	34,602	3,821
Legal fees	173,351	185,000	169,725	(3,626)
Engineering fees	350,490	200,000	303,319	(47,171)
Accounting fees	66,750	66,750	66,750	-
Audit fees	13,995	14,000	13,995	-
Insurance	16,300	12,000	2,118	(14,182)
Tax appraisal/collection	7,352	9,000	8,457	1,105
Financial advisor fees	854	2,000	854	-
Other	80,163	283,301	173,963	93,800
Capital Outlay	767,364	920,000	695,221	(72,143)
TOTAL EXPENDITURES	<u>5,603,685</u>	<u>6,121,518</u>	<u>6,022,079</u>	<u>418,394</u>
Change in fund balances / net assets	(912,987)	<u>\$ (1,882,329)</u>	<u>\$ (1,589,000)</u>	<u>\$ 676,013</u>
FUND BALANCE :				
Beginning of the year	<u>7,552,218</u>			
End of the year	<u>\$ 6,639,231</u>			

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**TEXAS SUPPLEMENTAL
INFORMATION**

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**NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2011**

3. Total Water Consumption during the Fiscal Year (rounded to the nearest thousand):

Gallons pumped into system: 314,684

Gallons billed to customers: 300,091

Water Accountability Ratio

(Gallons billed / Gallons Pumped)

95.4%

4. Standby Fees (authorized only under TWC Section 49.231):

Does the District assess standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: _____

Does the District have Operation and Maintenance standby fees? Yes ☐ No ☒

If yes, Date of the most recent Commission Order: _____

5. Location of District

County(ies) in which district is located: Travis County

Is the District located entirely within one county? Yes ☒ No ☐

Is the District located within a city? Entirely ☐ Partly ☐ Not at all ☒

City(ies) in which district is located: N/A

Is the District located within a city's extra territorial jurisdiction (ETJ)?

Entirely ☒ Partly ☐ Not at all ☐

ETJ's in which district is located: City of Austin

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? _____

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2011

Personnel Expenditures (including benefits)	\$ 105,727
Professional Fees:	
Audit	13,995
Legal	173,351
Engineering	350,490
Financial Advisor	854
Purchased Services For Resale:	
Bulk Water and Wastewater Purchases	2,133,003
Contracted Services:	
General Manager/Bookkeeping	310,468
Appraisal District/Tax Collector	7,352
Security Services	70,140
Other Contracted Services	529,399
Utilities	16,527
Repairs and Maintenance	244,238
Chemicals	31,658
Administrative Expenditures:	
Directors' Fees	30,781
Office Supplies	-
Insurance	16,300
Other Administrative Expenditures	137,648
Capital Outlay:	
Capitalized Assets	767,364
Expenditures not Capitalized	-
Bad Debt	-
Parks and Recreation	664,390
Other Expenditures	-
TOTAL EXPENDITURES	\$ 5,603,685

Number of persons employed by the District:

☐ Full-Time ☐ Part-Time
TSI-2

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2011**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund -					
Investment in LOGIC	XXX8001	Varies	N/A	\$ 1,770,010	\$ -
State Investment Pool	XXX0001	Varies	N/A	2,143,263	-
Investment in LOGIC	XXX8002	Varies	N/A	25,926	-
State Investment Pool	XXX0003	Varies	N/A	103,159	-
Certificate of Deposit	XXX9445	0.90%	10/27/2011	245,000	920
Certificate of Deposit	XXX5136	0.65%	11/6/2011	245,000	665
Certificate of Deposit	XXX5090	0.85%	12/15/2011	247,111	704
Certificate of Deposit	XXX9213	0.65%	1/20/2012	245,000	265
Total				<u>5,024,469</u>	<u>2,554</u>
Debt Service Fund -					
Investment in LOGIC	XXX8005	Varies	N/A	4,160	-
Investment in LOGIC	XXX8006	Varies	N/A	646,902	-
Total				<u>651,062</u>	<u>-</u>
Capital Projects Fund -					
Investment in LOGIC	XXX8008	Varies	N/A	1,010,816	-
Wells Fargo Adv. Gov. MM	20074800	Variable	N/A	696,216	6
Investment in LOGIC	XXX8010	Varies	N/A	282,338	-
Investment in LOGIC	XXX8012	Varies	N/A	44,958	-
Total				<u>2,034,328</u>	<u>6</u>
Total - All Funds				<u>\$ 7,709,859</u>	<u>\$ 2,560</u>

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2011**

			<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
Taxes Receivable, Beginning of Year			\$ 11,929	\$ 12,848
2010 Original Tax Levy, less abatements/adjustments			<u>1,189,606</u>	<u>2,009,407</u>
Total to be accounted for			<u>1,201,535</u>	<u>2,022,255</u>
Tax collections:				
Current year			1,177,154	1,988,374
Prior years			<u>4,313</u>	<u>4,728</u>
Total collections			<u>1,181,467</u>	<u>1,993,102</u>
Taxes Receivable, End of Year			<u>\$ 20,068</u>	<u>\$ 29,153</u>
Taxes Receivable, By Years				
2008 and prior			\$ 5,539	\$ 5,059
2009			2,077	3,061
2010			<u>12,452</u>	<u>21,033</u>
Taxes Receivable, End of Year			<u>\$ 20,068</u>	<u>\$ 29,153</u>
Property Valuations:	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land and improvements	<u>\$ 426,535,099</u>	<u>\$ 434,552,366</u>	<u>\$ 383,023,670</u>	<u>\$ 357,239,412</u>
Total Property Valuations	<u>\$ 426,535,099</u>	<u>\$ 434,552,366</u>	<u>\$ 383,023,670</u>	<u>\$ 357,239,412</u>
Tax Rates per \$100 Valuation:				
Debt Service tax rates	\$ 0.4711	\$ 0.4468	\$ 0.3467	\$ 0.3025
Maintenance tax rates	<u>0.2789</u>	<u>0.3032</u>	<u>0.4033</u>	<u>0.4475</u>
Total Tax Rates per \$100 Valuation:	<u>\$ 0.7500</u>	<u>\$ 0.7500</u>	<u>\$ 0.7500</u>	<u>\$ 0.7500</u>
Original Tax Levy	<u>\$ 3,199,013</u>	<u>\$ 3,259,143</u>	<u>\$ 2,872,678</u>	<u>\$ 2,679,296</u>
Percent of Taxes Collected to Taxes Levied **	<u>99.0%</u>	<u>99.8%</u>	<u>99.9%</u>	<u>99.9%</u>
Maximum Maintenance Tax Rate Approved by Voters:	<u>\$ 1.00 on 11/6/2001</u>			

**Calculated as taxes collected in current and previous years divided by tax levy.

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2011

DUE DURING FISCAL YEARS ENDING 9/30	UNLIMITED TAX AND REVENUE REFUNDING BONDS SERIES 2004			UNLIMITED TAX AND REVENUE BONDS SERIES 2006			UNLIMITED TAX AND REVENUE BONDS SERIES 2007		
	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total
2012	\$ 280,000	\$ 53,807	\$ 333,807	\$ 140,000	\$ 150,581	\$ 290,581	\$ 175,000	\$ 209,850	\$ 384,850
2013	295,000	44,358	339,358	150,000	145,681	295,681	175,000	203,288	378,288
2014	200,000	34,032	234,032	150,000	140,244	290,244	200,000	196,725	396,725
2015	215,000	26,733	241,733	160,000	134,806	294,806	200,000	189,225	389,225
2016	220,000	18,670	238,670	175,000	129,006	304,006	225,000	182,025	407,025
2017	125,000	10,200	135,200	175,000	122,444	297,444	225,000	173,813	398,813
2018	130,000	5,200	135,200	200,000	115,881	315,881	225,000	165,488	390,488
2019	-	-	-	200,000	108,381	308,381	250,000	157,050	407,050
2020	-	-	-	225,000	100,631	325,631	250,000	147,550	397,550
2021	-	-	-	225,000	91,913	316,913	275,000	137,925	412,925
2022	-	-	-	250,000	82,913	332,913	275,000	127,200	402,200
2023	-	-	-	250,000	72,913	322,913	300,000	116,200	416,200
2024	-	-	-	275,000	62,913	337,913	325,000	104,200	429,200
2025	-	-	-	275,000	51,638	326,638	325,000	91,200	416,200
2026	-	-	-	300,000	40,225	340,225	350,000	78,200	428,200
2027	-	-	-	325,000	27,625	352,625	375,000	64,200	439,200
2028	-	-	-	325,000	13,813	338,813	400,000	49,200	449,200
2029	-	-	-	-	-	-	400,000	33,200	433,200
2030	-	-	-	-	-	-	430,000	17,200	447,200
2031	-	-	-	-	-	-	-	-	-
	<u>1,465,000</u>	<u>193,000</u>	<u>1,658,000</u>	<u>\$ 3,800,000</u>	<u>\$ 1,591,608</u>	<u>\$ 5,391,608</u>	<u>\$ 5,380,000</u>	<u>\$ 2,443,739</u>	<u>\$ 7,823,739</u>

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2011

DUE DURING FISCAL YEARS ENDING 9/30	UNLIMITED TAX AND REVENUE BONDS SERIES 2009			UNLIMITED TAX AND REVENUE REFUNDING BONDS SERIES 2010			ANNUAL REQUIREMENTS FOR ALL SERIES		
	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total	Principal Due 9/1	Interest Due 3/1, 9/1	Total
2012	\$ 200,000	\$ 318,906	\$ 518,906	\$ 85,000	\$ 416,156	\$ 501,156	\$ 880,000	\$ 1,149,300	\$ 2,029,300
2013	225,000	309,906	534,906	295,000	216,156	511,156	1,140,000	919,389	2,059,389
2014	225,000	299,781	524,781	310,000	207,306	517,306	1,085,000	878,088	1,963,088
2015	250,000	289,656	539,656	320,000	198,006	518,006	1,145,000	838,426	1,983,426
2016	250,000	279,656	529,656	340,000	185,206	525,206	1,210,000	794,563	2,004,563
2017	275,000	269,656	544,656	355,000	171,606	526,606	1,155,000	747,719	1,902,719
2018	275,000	258,656	533,656	375,000	157,406	532,406	1,205,000	702,631	1,907,631
2019	300,000	247,656	547,656	560,000	142,410	702,410	1,310,000	655,497	1,965,497
2020	325,000	235,656	560,656	585,000	120,006	705,006	1,385,000	603,843	1,988,843
2021	325,000	222,250	547,250	425,000	96,606	521,606	1,250,000	548,694	1,798,694
2022	350,000	208,438	558,438	450,000	79,606	529,606	1,325,000	498,157	1,823,157
2023	350,000	193,388	543,388	465,000	63,856	528,856	1,365,000	446,357	1,811,357
2024	375,000	177,988	552,988	485,000	47,000	532,000	1,460,000	392,101	1,852,101
2025	400,000	161,113	561,113	510,000	28,813	538,813	1,510,000	332,764	1,842,764
2026	425,000	142,613	567,613	250,000	9,688	259,688	1,325,000	270,726	1,595,726
2027	450,000	122,425	572,425	-	-	-	1,150,000	214,250	1,364,250
2028	475,000	101,050	576,050	-	-	-	1,200,000	164,063	1,364,063
2029	500,000	78,250	578,250	-	-	-	900,000	111,450	1,011,450
2030	525,000	54,250	579,250	-	-	-	955,000	71,450	1,026,450
2031	560,000	28,000	588,000	-	-	-	560,000	28,000	588,000
	<u>\$ 7,060,000</u>	<u>\$ 3,999,294</u>	<u>\$ 11,059,294</u>	<u>\$ 5,810,000</u>	<u>\$ 2,139,827</u>	<u>\$ 7,949,827</u>	<u>\$ 23,515,000</u>	<u>\$ 10,367,468</u>	<u>\$ 33,882,468</u>

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2011

	<u>Series 2001</u>	<u>Series 2002</u>	<u>Series 2003</u>	<u>Series 2004</u>	<u>Series 2006</u>	<u>Series 2007</u>	<u>Series 2009</u>	<u>Series 2010</u>	<u>Total</u>
Interest Rate	4.60 - 6.50%	3.75 - 5.00%	3.75 - 4.75%	1.55 - 4.00%	3.50 - 5.00%	3.60 - 4.00%	4.00 - 5.00%	2.00 - 4.00%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2020	9/1/2025	9/1/2026	9/1/2018	9/1/2028	9/1/2030	9/1/2031	9/1/2026	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 340,000	\$ 2,760,000	\$ 3,040,000	\$ 1,735,000	\$ 3,925,000	\$ 5,555,000	\$ 7,235,000	\$ -	\$ 24,590,000
Bonds Sold During the Current Fiscal Year	-	-	-	-	-	-	-	5,895,000	5,895,000
Retirements During the Current Fiscal Year:									
Principal	-	(120,000)	(125,000)	(270,000)	(125,000)	(175,000)	(175,000)	(85,000)	(1,075,000)
Refunded	(340,000)	(2,640,000)	(2,915,000)	-	-	-	-	-	(5,895,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,465,000</u>	<u>\$ 3,800,000</u>	<u>\$ 5,380,000</u>	<u>\$ 7,060,000</u>	<u>\$ 5,810,000</u>	<u>\$ 23,515,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ -</u>	<u>\$ 4,560</u>	<u>\$ 5,000</u>	<u>\$ 62,920</u>	<u>\$ 156,832</u>	<u>\$ 216,412</u>	<u>\$ 326,782</u>	<u>\$ 163,996</u>	<u>\$ 936,502</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	<u>Bank of Texas</u> <u>Austin, TX</u>	
Bond Authority:	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>						
Amount Authorized by Voters	\$ 69,443,000	\$ -	\$ -						
Amount Issued	(29,440,000)	-	8,400,000						
Remaining To Be Issued	<u>\$ 40,003,000</u>	<u>\$ -</u>	<u>\$ -</u>						

* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2011: \$ 651,062

Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt: \$ 1,694,123

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND AND DEBT SERVICE FUND
FIVE YEARS ENDED SEPTEMBER 30, 2011

	AMOUNTS					PERCENT OF FUND TOTAL REVENUES				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
GENERAL FUND										
REVENUES:										
Water, wastewater and garbage service, including penalties	\$ 3,250,171	\$ 2,983,681	\$ 3,236,884	\$ 2,919,608	\$ 2,242,773	69.3	65.8	63.4	54.7	55.0
Property taxes, including penalties and interest	1,186,441	1,324,242	1,553,113	1,552,920	1,184,956	25.3	29.2	30.4	29.0	29.1
Park fees	113,100	66,300	41,966	286,600	85,800	2.4	1.5	0.8	5.4	2.1
Interest	21,898	30,463	71,417	218,403	280,423	0.5	0.7	1.4	4.1	6.9
System connection fees	50,575	71,640	50,750	349,900	261,500	1.0	1.6	1.0	6.5	6.4
Developer contributions	-	-	-	-	-	-	-	-	-	-
Park grant	-	-	100,000	-	-	-	-	1.9	-	-
Miscellaneous	68,513	56,143	54,924	18,654	20,850	1.5	1.2	1.1	0.3	0.5
Total revenues	4,690,698	4,532,469	5,109,054	5,346,085	4,076,302	100.0	100.0	100.0	100.0	100.0
EXPENDITURES:										
Current:										
Water, wastewater and garbage	2,630,998	2,347,651	2,368,011	2,064,765	1,616,603	56.0	51.8	46.3	38.7	39.6
Park maintenance	664,390	591,207	515,827	767,946	304,997	14.1	13.0	10.1	14.4	7.5
General manager services	243,718	244,466	216,522	293,524	229,689	5.2	5.4	4.2	5.5	5.6
Legal fees	173,351	189,291	182,318	127,987	90,184	3.7	4.2	3.6	2.4	2.2
Repairs and maintenance	244,238	363,410	191,547	113,554	251,905	5.2	8.0	3.7	2.2	6.2
Restrictive covenants	28,085	62,250	63,280	87,511	72,652	0.6	1.4	1.2	1.6	1.8
Inspection fees/meter purchases	3,319	9,469	33,159	75,595	40,850	0.1	0.2	0.6	1.4	1.0
Engineering fees	350,490	224,738	53,832	54,717	40,897	7.4	5.0	1.1	1.0	1.0
Security services	70,140	46,890	33,713	39,450	30,800	1.5	1.0	0.7	0.7	0.8
Utilities	16,527	14,428	16,165	18,538	8,065	0.4	0.3	0.3	0.3	0.2
Auditing fees	13,995	16,000	19,500	18,500	11,500	0.3	0.4	0.4	0.3	0.3
Accounting fees	66,750	66,750	66,437	-	-	1.4	1.5	1.3	-	-
Directors' fees	30,781	23,091	21,799	14,210	11,788	0.7	0.5	0.4	0.3	0.3
Chemicals	31,658	80,010	32,279	11,800	29,476	0.7	1.8	0.6	0.2	0.7
Office expenditures	163,212	-	-	-	-	3.6	-	-	-	-
Tax appraisal/collection fees	7,352	7,806	10,498	10,173	7,093	0.2	0.2	0.2	0.2	0.2
Insurance	16,300	5,683	4,704	8,246	3,449	0.3	0.1	0.1	0.2	0.1
Other	81,017	35,499	35,451	22,900	29,179	1.7	0.8	0.7	0.4	0.7
Contracted services	-	-	27,206	-	-	-	-	0.5	-	-
Capital outlay	767,364	785,437	463,594	13,081	122,954	16.4	17.3	9.1	0.2	3.0
Total expenditures	5,603,685	5,114,076	4,355,842	3,742,497	2,902,081	119.5	112.9	85.1	70.0	71.2
EXCESS OF REVENUES OVER EXPENDITURES	\$ (912,987)	\$ (581,607)	\$ 753,212	\$ 1,603,588	\$ 1,174,221	(19.5)	(12.9)	14.9	30.0	28.8

(continued)

NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-7 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES -
GENERAL FUND AND DEBT SERVICE FUND (continued)
FIVE YEARS ENDED SEPTEMBER 30, 2011

	AMOUNTS					PERCENT OF FUND TOTAL REVENUES				
	2011	2010	2009	2008	2007	2011	2010	2009	2008	2007
<u>DEBT SERVICE FUND</u>										
REVENUES:										
Property taxes, including penalties and interest	\$ 2,000,157	\$ 1,946,551	\$ 1,331,359	\$ 1,054,080	\$ 1,056,973	88.0	99.8	64.0	66.2	95.5
Net bond activity	269,908	-	732,168	493,376	-	11.9	-	35.3	31.0	-
Interest	3,470	4,211	13,504	44,617	50,360	0.1	0.2	0.7	2.8	4.5
Total revenues	<u>2,273,535</u>	<u>1,950,762</u>	<u>2,077,031</u>	<u>1,592,073</u>	<u>1,107,333</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES:										
Tax appraisal/collection fees	12,418	11,501	9,024	6,875	6,341	0.5	0.6	0.4	0.4	0.6
Principal payments	1,075,000	945,000	900,000	730,000	481,030	47.3	48.4	43.3	45.9	43.3
Interest payments	936,502	1,078,355	888,669	764,133	638,823	41.2	55.3	42.8	48.0	57.7
Fiscal agent fees and other	2,642	9,580	4,069	2,296	2,849	0.1	0.5	0.2	0.1	0.3
Bond refunding expenditures	254,562	-	-	-	-	11.2	-	-	-	-
Bond discount	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>2,281,124</u>	<u>2,044,436</u>	<u>1,801,762</u>	<u>1,503,304</u>	<u>1,129,043</u>	<u>100.3</u>	<u>104.8</u>	<u>86.7</u>	<u>94.4</u>	<u>102.0</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (7,589)</u>	<u>\$ (93,674)</u>	<u>\$ 275,269</u>	<u>\$ 88,769</u>	<u>\$ (21,710)</u>	<u>(0.3)</u>	<u>(4.8)</u>	<u>13.3</u>	<u>5.6</u>	<u>(2.0)</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>2,782</u>	<u>2,729</u>	<u>2,766</u>	<u>2,637</u>	<u>2,563</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>2,755</u>	<u>2,697</u>	<u>2,739</u>	<u>2,599</u>	<u>2,543</u>					

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2011**

Complete District Mailing Address:	c/o Armbrust & Brown, PLLC 100 Congress Ave. Austin TX 78701
District Business Telephone Number:	(512) 435-2300
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054:	11/22/2011
Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)	\$7,200

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimbursements	9/30/2011	9/30/2011	Title at Year End
Board Members:						
ROBIN CAMPBELL	(Elected) 5/10/2008 - 11/06/2012	\$	-	\$	534	President
BRENDA RICHTER	(Elected) 5/8/2010 - 11/04/2014	\$	7,200	\$	15,439	Vice-President
SCOTT M. GRAY	(Elected) 5/10/2008 - 11/04/2014	\$	5,550	\$	-	Treasurer
ALEX MARTINEZ	(Appointed) 5/25/2010 - 11/04/2014	\$	5,850	\$	-	Secretary
FELIX T. AMARO, JR.	(Appointed) 12/28/2010 - 11/06/2012	\$	2,400	\$	-	Assistant Sec. / Treasurer

* Fees of Office are the amounts actually paid to a director during the district's fiscal year.

Consultants:

Crossroads Utility Service	2010	\$	422,053	\$	-	District Manager
Armbrust & Brown, PLLC	1997	\$	188,462	\$	-	Attorney
Bott & Douthitt, PLLC	2009	\$	66,750	\$	269	District Accountant
McCall Gibson Swedlund Barfoot PLLC	2011	\$	-	\$	-	Auditor
Belt Harris Pechacek LLP	2010	\$	13,995	\$	-	Former Auditor
Kimley-Horn & Associates, Inc.	2009	\$	422,307	\$	-	Engineer
Southwest Securities	1994	\$	2,296	\$	-	Financial Advisor
Travis County Tax Collector	1994	\$	3,338	\$	-	Tax Collector

OTHER SUPPLEMENTAL INFORMATION

**NORTHTOWN MUNICIPAL UTILITY DISTRICT
OSI-1. PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2011**

Taxpayer	Type of Property	Tax Roll Year		
		2011	2010	2009
Techridge Multi-Family	N/A	\$ 25,959,099	\$ 25,117,348	\$ 23,515,031
AMB/TR Four 2001 Ltd	N/A	9,476,102	10,820,833	12,666,386
Village @ Northtown Ltd	N/A	5,555,426	5,795,678	3,912,201
KB Home Lone Star LP	N/A	3,482,822	1,848,963	1,500,210
Applied Materials Inc.	N/A	3,396,786	-	3,477,476
AM Petroleum Inc.	N/A	2,521,088	1,307,758	1,307,758
Techridge Spectrum BC LP	N/A	1,915,046	1,915,046	1,915,046
NGK Electronics	N/A	949,125	-	-
Wills-Rogers, L.	N/A	722,765	752,071	769,773
Federal National Mortgage Assn.	N/A	678,767	728,198	-
Hanna/MaGee LP #1	N/A	-	1,161,498	2,065,571
Secretary of Housing & Urban Dev.	N/A	-	907,410	-
Continental Homes of Texas LP	N/A	-	-	1,336,183
Total		\$ 54,657,026	\$ 50,354,803	\$ 52,465,635
Percent of Assessed Valuation		12.9%	11.8%	12.1%

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**NORTHTOWN MUNICIPAL UTILITY DISTRICT
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2011**

Type of Property	Tax Roll Year					
	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 359,155,809	84.9%	\$ 368,254,302	86.3%	\$ 369,447,746	85.0%
Multi Family Residence	33,957,193	8.0%	33,320,230	7.8%	33,261,199	7.7%
Vacant Lot	2,369,246	0.6%	2,632,996	0.6%	2,204,613	0.5%
Qualified Ag Land	-	-	-	-	-	-
Non-Qualified Land	7,731,351	1.8%	8,785,632	2.1%	7,374,952	1.7%
Commercial Real Property	10,926,709	2.6%	10,832,145	2.5%	12,678,510	2.9%
Telephone Company	640,666	0.2%	111,870	0.1%	99,460	-
Cable Television Company	102,121	-	108,110	-	103,950	-
Commercial Personal Property	3,329,444	0.8%	1,012,431	0.2%	1,796,481	0.4%
Industrial Personal Property	75,929,624	17.9%	24,608,065	5.8%	75,415,610	17.4%
Residential Inventory	3,686,295	0.9%	3,300,082	0.8%	6,357,818	1.5%
Totally Exempt Property	1,007,686	0.2%	786,031	0.2%	1,398,396	0.3%
Less: Adjustments	<u>(75,572,333)</u>	<u>(17.9)%</u>	<u>(27,216,795)</u>	<u>(6.4)%</u>	<u>(75,586,369)</u>	<u>(17.4)%</u>
Total Taxable	<u>\$ 423,263,811</u>	<u>100.0%</u>	<u>\$ 426,535,099</u>	<u>100.0%</u>	<u>\$ 434,552,366</u>	<u>100.0%</u>

APPENDIX B
Schedule of Accreted Values

(To come)

APPENDIX C
Form of Bond Counsel Opinion

APPENDIX D
Specimen Municipal Bond Insurance Policy