

AMENDED OFFICIAL STATEMENT DATED MAY 18, 2015

NEW ISSUE-BOOK-ENTRY-ONLY

**Ratings: AGM Insured: S&P “AA” (Stable Outlook); Moody’s “A2” (Stable Outlook); Kroll “AA+” (Stable Outlook)  
Moody’s Underlying: “Baa1”  
See “MUNICIPAL BOND RATINGS” AND “BOND INSURANCE”.**

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

**\$3,180,000**

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT No. 2**

**(A Political Subdivision of the State of Texas Located in Hays County, Texas)**

**UNLIMITED TAX BONDS, SERIES 2015**

**Dated: May 1, 2015**

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

Interest on the \$3,180,000 Greenhawe Water Control and Improvement District No. 2 Unlimited Tax Bonds, Series 2015 (the “Bonds”) will accrue from May 1, 2015 and is payable September 1, 2015 and each March 1 and September 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent/registrars for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the “Paying Agent” or “Paying Agent/Registrar”). The Bonds are obligations solely of Greenhawe Water Control and Improvement District No. 2 (the “District”) and are not obligations of the City of Drippings Springs, Texas; Hays County, Texas; the State of Texas; or any entity other than the District.

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.”



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**MATURITY SCHEDULE**  
**(see inside cover page)**

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The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS" herein.

The Bonds are offered by the initial purchaser (the “Initial Purchaser”) subject to prior sale, when, as and if issued by the District and accepted by the Initial Purchaser, subject, among other things to the approval of the Initial Bond by the Attorney General of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about May 27, 2015 in Austin, Texas.

**MATURITIES**  
**(Due September 1)**

		Initial					Initial				
Due	Principal Amount	Interest Rate <sup>(a)</sup>	Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>	Due		Principal Amount	Interest Rate <sup>(a)</sup>	Reoffering Yield <sup>(b)</sup>	CUSIP Number <sup>(c)</sup>	
2015	\$ 15,000	3.000%	0.600%	39525RDE1	2023	*	\$ 25,000	3.000%	2.500%	39525RDN1	
2016	25,000	3.000%	0.800%	39525RDF8	2024	*	25,000	3.000%	2.550%	39525RDP6	
2017	25,000	3.000%	1.200%	39525RDG6	2030	*	250,000	3.000%	3.150%	39525RDV3	
2018	25,000	3.000%	1.600%	39525RDH4	2031	*	500,000	3.000%	3.200%	39525RDW1	
2019	25,000	3.000%	1.800%	39525RDJ0	2032	*	500,000	3.125%	3.250%	39525RDX9	
2020	25,000	3.000%	2.000%	39525RDK7	2033	*	675,000	3.250%	3.350%	39525RDY7	
2021	25,000	3.000%	2.150%	39525RDL5	2034	*	690,000	3.250%	3.400%	39525RDZ4	
2022	*	25,000	3.000%	2.250%	39525RDM3						
\$325,000 3.000% <sup>(a)</sup> Term Bond due September 1, 2029* Yield <sup>(b)</sup> 3.100% CUSIP Number 39525RDU5 <sup>(c)</sup>											

- \* 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, 2022 in whole or from time to time in part, on September 1, 2021, 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 maturing September 1, 2029 (the "Term Bond") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption."
- (a) After requesting competitive bids for purchase of the Bonds, the District has accepted the lowest bid to purchase the Bonds, bearing interest as shown, at a price of 97% of par plus accrued interest to the date of delivery, resulting in a net effective interest rate to the District of 3.327956%.
- (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 Initial Purchaser. The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from May 1, 2015 to the date of delivery of the Bonds to the Initial Purchaser is to 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 S&P Capital IQ 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 provided by CUSIP Global Services. Neither the Initial Purchaser, the District, nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**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 C - SPECIMEN MUNICIPAL BOND INSURANCE POLICY".**

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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 Financial Advisor, 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, to the extent that information actually comes to its attention, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT - Updating the Official Statement During Underwriting Period" and "CONTINUING DISCLOSURE OF INFORMATION."

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR 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, OR THE INSURER.

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

### **Award of the Bonds**

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

### **Prices and Marketability**

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

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

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

### **Securities Laws**

No registration statement relating to the offer and sale of the Bonds has been filed with the 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

Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), Moody's Investors Service, Inc. ("Moody's"), and Kroll Bond Rating Agency, Inc. ("Kroll") are expected to assign ratings of "AA" (stable outlook), "A2" (stable outlook), and "AA+" (stable outlook), respectively, 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 "Baa1" 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 of the market price of the Bonds.

## BOND INSURANCE

### Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and global public finance, infrastructure and structured finance markets. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

### Current Financial Strength Ratings

On November 13, 2014, KBRA assigned an insurance financial strength rating of "AA+" (stable outlook) to AGM. AGM can give no assurance as to any further ratings action that KBRA may take.

On July 2, 2014, S&P issued a credit rating report in which it affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On July 2, 2014, Moody's issued a rating action report stating that it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). On February 18, 2015, Moody's published a credit opinion under its new financial guarantor ratings methodology maintaining its existing rating and outlook on AGM. AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

### *Capitalization of AGM*

At March 31, 2015, AGM's policyholders' surplus and contingency reserve were approximately \$3,730 million and its net unearned premium reserve was approximately \$1,702 million. Such amounts represent the combined surplus, contingency reserve and net unearned premium reserve of AGM, AGM's wholly owned subsidiary Assured Guaranty (Europe) Ltd. and 60.7% of AGM's indirect subsidiary Municipal Assurance Corp.; each amount of surplus, contingency reserve and net unearned premium reserve for each company was determined in accordance with statutory accounting principles.

### *Incorporation of Certain Documents by Reference*

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (filed by AGL with the SEC on February 26, 2015); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015 (filed by AGL with the SEC on May 8, 2015).

All consolidated financial statements of AGM and all other information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

### *Miscellaneous Matters*

AGM or one of its affiliates may purchase a portion of the Bonds or any uninsured bonds offered under this Official Statement and such purchases may constitute a significant proportion of the bonds offered. AGM or such affiliate may hold such Bonds or uninsured bonds for investment or may sell or otherwise dispose of such Bonds or uninsured bonds at any time or from time to time.

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".

*[The remainder of this page intentionally left blank]*

## 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..... Greenhawe Water Control & Improvement District No. 2 (the “District”), a political subdivision of the State of Texas, was created by order of the Hays County Commissioners Court, effective April 17, 2001, and confirmed pursuant to an election held within the District on November 4, 2003. The District was created for the purpose of providing, operating and maintaining facilities to control storm water and to distribute potable water and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended. See “THE DISTRICT – General.”

Location..... The District is currently comprised of two non-contiguous parcels of land, which include approximately 2,546.50 acres of land, located in north central Hays County. The Rim Rock Tract (“Rim Rock”) and the Rutherford West Tract (“Rutherford West”) are adjacent to each other. The Greenhawe Tract (“Greenhawe”) is an approximately 658.21 non-contiguous parcel of land located to the south of Rutherford West which has been designated as a conservation easement and is restricted from future development. Rim Rock and Rutherford West are located south of FM 1826 and north of FM 967. Greenhawe is located along FM 967, approximately 3.4 miles east of the intersection of FM 1826 and FM 967. The District is not located within the corporate limits of a city, but approximately 1,888 acres of the District are now located within the extraterritorial jurisdiction of the City of Dripping Springs. The District lies approximately 17 miles southwest of the City of Austin, Texas. See “THE DISTRICT – Creation, Location and Boundaries.”

The Developer ..... As of March 1, 2015, approximately 1,190.35 acres of the District have been developed with water, drainage facilities and internal roads. Of the approximate 1,190.35 acres, approximately 1,078.96 acres were developed by LSM Ranch, Ltd., (“LSM” or the “Developer”) as the residential subdivision of Rim Rock containing 675 single-family developed platted lots. LSM is a Texas limited partnership, with LSM GP, Inc., a Texas corporation, as its general partner, for which John Lloyd serves as the President. See “THE DEVELOPER” and “THE DISTRICT – Historical Development” and “THE DISTRICT – Current Status of Development.”

The remaining approximate 111.39 developed acres were developed from June 2005 until December 2008 by Wilson Family Communities Inc., a Delaware corporation (“Wilson Family Communities”) as the residential subdivision of Rutherford West, containing 58 single-family developed platted lots. During the time of development, Wilson Family Communities was a Delaware corporation for which Clark Wilson served as the President and CEO, and a wholly owned subsidiary of Green Builders Inc., a Texas corporation and Austin based home builder and developer of green homes and communities in Central Texas for which Clark Wilson also served as the President and CEO. Clark Wilson resigned as President and CEO and, since February 15, 2011, William E. Weber has served as President and CEO of Wilson Family Communities and Green Builders, Inc. Effective May 23, 2012, Wilson Family Communities merged into Green Builders, Inc., a Texas corporation (“Green Builders”). Green Builders filed for Chapter 11 bankruptcy on August 12, 2011 and the bankruptcy court approved a plan of reorganization on February 10, 2012. The bankruptcy case was discharged and Green Builders has continued its business operations following the discharge of the bankruptcy proceedings. As of March 1, 2015, Green Builders owns 5 developed lots within Rutherford West, Sections 1 and 2. See “THE DISTRICT – Current Status of Development.”

LSM is currently the only active developer within the District. Following the issuance of the Bonds, LSM and Green Builders will be owed additional funds with reimbursements expected to be made from the proceeds of future installments of bonds. See “INVESTMENT CONSIDERATIONS – Future Debt.”

Major Landowner ..... On December 31, 2009, Wilson Family Communities transferred approximately 539.06 undeveloped acres by deed in lieu of foreclosure to Graham Mortgage Corporation (“Graham”), a Texas corporation, and lienholder of the undeveloped acreage pursuant to a Modification and Forbearance Agreement dated as of January 6, 2009 among Wilson Family Communities, Green Builders and Graham Mortgage Corporation. The approximate 539.06 undeveloped acreage is currently under an agricultural exemption, and Graham is currently actively marketing the property for sale. See “MAJOR LANDOWNER.”

Status of Development..... Development of the District commenced in September, 2001, and, as of March 1, 2015, approximately 1,190.35 acres (or 68.83% of the approximately 1,729.41 developable acres within the District) have been developed with utility facilities as the single-family residential subdivisions of: Rim Rock Phase 1, Sections 1, 3, 4 and 5; Rim Rock Phase 2, Sections 2, 3, 4 and 5; Rim Rock Phase 3, Sections 2 and 3; and Rutherford West Sections 1 and 2. As of March 1, 2015, the District contained a total of 733 single-family developed platted lots comprised of 567 completed single-family homes, 80 homes under construction and 85 vacant developed single-family lots. The District also contains approximately 817.09 acres which are dedicated as conservation easement or greenbelt and are restricted from further development. See "THE DISTRICT – Current Status of Development."

Homebuilders..... According to the Developer, the major homebuilders currently active within the District are: Lennar Homes of Texas Land & Construction, Ltd., MHI, Scott Felder Homes, LLC, Castle Rock Communities, Century Homes and Vintage Estates, in addition to a number of custom and semi-custom private homebuilders who are marketing lots within the District (the "Private Homebuilders") (collectively, the "Homebuilders").

The Developer has represented that the sales prices of homes being constructed generally range from approximately \$400,000 to \$750,000 with square footage ranging from approximately 3,500 to 6,500. See "THE DISTRICT – Current Status of Development," "THE DEVELOPER – Description of Developer" and "THE DEVELOPER – Homebuilders."

### THE BONDS

Description ..... The Bonds in the aggregate principal amount of \$3,180,000 mature serially in varying amounts on September 1 of each year from 2015 through 2024 and 2030 through 2034, and as a Term Bond which matures September 1, 2029, as set forth on the inside cover page hereof. Interest accrues from May 1, 2015 at the rates per annum set forth on the inside cover page hereof and is payable September 1, 2015 and each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."

Redemption ..... The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, 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 maturing September 1, 2029 are also 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 obligations solely of the District and are not obligations of the City of Dripping Springs, Texas; Hays County, Texas; the State of Texas; or any entity other than the District.** See "THE BONDS - Source of and Security for Payment."

Payment Record..... The District has previously issued three installments of new money bonds and one installment of refunding bonds. The District has made timely payment on its Unlimited Tax Bonds, Series 2009; Unlimited Tax Bonds Series 2011; Unlimited Tax Bonds, Series 2012; and Unlimited Tax Refunding Bonds, Series 2013. The proceeds of the outstanding new money bonds included up to 24 months of capitalized interest. See "FINANCIAL STATEMENT – Outstanding Bonds."

Authority for Issuance ..... The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas including Chapters 49 and 51 of the Texas Water Code, as amended, a bond election held within the District on February 7, 2004, approving the issuance of bonds, the approving Order of the Commission and the bond order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds. See "THE BONDS - Authority for Issuance."

Use of Proceeds ..... The proceeds of the Bonds will be used to finance the costs of the following projects: (i) LUE reservation fees; (ii) City of Dripping Springs submittal fee, TCEQ plan review fee, and West Travis County Public Utility Agency review and inspections fees; and (iii) water distribution and drainage facilities serving Rim Rock Phase 1, Section 5 and Phase 2, Sections 3, 4, and 5.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest; and (iv) pay certain costs associated with the issuance of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."



Bonds Authorized But Unissued .....	At an election held within the District on February 7, 2004, voters within the District authorized a total of \$47,900,000 in bonds for water and drainage facilities. After the sale of the Bonds, \$37,120,000 in bonds will remain authorized but unissued. See "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS."
Municipal Bond Ratings and Bond Insurance .....	S&P, Moody's, and Kroll are expected to assign ratings of "AA" (stable outlook), "A2" (stable outlook), and "AA+" (stable outlook), respectively, to the Bonds, as a result of a municipal bond insurance policy issued by AGM at the time of delivery of the Bonds. Additionally, Moody's has assigned an underlying rating of "Baa1" to the Bonds.
Qualified Tax-Exempt Obligations .....	The District has designated the Bonds as "qualified tax-exempt obligations" pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2015 is not reasonably expected to exceed \$10,000,000. See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions."
Bond Counsel and Disclosure Counsel .....	McCall, Parkhurst & Horton L.L.P., Austin, Texas
General Counsel.....	Armbrust & Brown, PLLC, Austin, Texas
Financial Advisor.....	Public Finance Group LLC, Austin, Texas
Engineer .....	Murfee Engineering Company, Inc., Austin, Texas
Paying Agent / Registrar .....	BOKF, N.A., dba Bank of Texas, Austin, Texas

#### **INVESTMENT CONSIDERATIONS**

The purchase and ownership of the Bonds involve certain investment considerations and all prospective purchasers are urged to examine 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, 2015)

2014 Certified Assessed Valuation		\$130,663,879	(a)
Estimated Assessed Valuation as of February 1, 2015		\$190,124,040	(b)
Gross Debt Outstanding (after issuance of the Bonds)		\$ 10,450,000	(c)
Ratio of Gross Debt to 2014 Certified Assessed Valuation		8.00%	
Ratio of Gross Debt to Estimated Assessed Valuation as of February 1, 2015		5.50%	
2014 Tax Rate			
	Debt Service	\$ 0.3708	
	Maintenance	0.4792	
	<b>Total 2014 Tax Rate</b>	<u>\$ 0.8500</u>	(d)
Debt Service Fund Balance (as of April 22, 2015)		\$ 590,360	(e)
Percentage of current tax collections (Tax Years 2006-2014)		99.01%	(f)
Percentage of total tax collections (Tax Years 2006-2014)		99.39%	(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2015-2034, inclusive)		\$ 723,678	
Tax Rate required to pay Average Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.59	/ \$100 AV
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of February 1, 2015 at 95% collections		\$ 0.41	/ \$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2027)		\$ 764,635	
Tax Rate required to pay Maximum Requirement based upon 2014 Certified Assessed Valuation at 95% collections		\$ 0.62	/ \$100 AV
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of February 1, 2015 at 95% collections		\$ 0.43	/ \$100 AV
Number of active connections as of March 1, 2015			
Single Family		567	
Single Family - Builder		<u>80</u>	
<b>Total Number of Active Connections</b>		<b>647</b>	
Estimated Population as of March 1, 2015		1,985	(g)

- (a) Certified assessed valuation of the District as of January 1, 2014 as provided by the Hays Central Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated Assessed Valuation as of February 1, 2015, as provided by HCAD is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by HCAD.
- (c) Includes the Bonds.
- (d) The District levied a 2014 tax rate of \$0.85.
- (e) Unaudited as of April 22, 2015. Does not include approximately twenty-four months' capitalized interest (\$211,658) included in the Bond proceeds, to be deposited into the Debt Service Fund upon closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per occupied single family home.

**OFFICIAL STATEMENT  
relating to**

**\$3,180,000**

**Greenhawe Water Control and Improvement District No. 2  
(A Political Subdivision of the State of Texas Located in Hays County, Texas)**

**UNLIMITED TAX BONDS, SERIES 2015**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Greenhawe Water Control and Improvement District No. 2 (the "District"), a political subdivision of the State of Texas, of its \$3,180,000 Unlimited Tax Bonds, Series 2015 (the "Bonds").

The Bonds are issued pursuant to an order (the "Bond Order") adopted by the Board of Directors of the District on the date of the sale of the Bonds, pursuant to the Constitution and general laws of the State of Texas (the "State") including Chapters 49 and 51 of the Texas Water Code, as amended, the bond election approved by the voters within the District on February 7, 2004, and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or "Commission").

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown, PLLC, 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Public Finance Group LLC, 7004 Bee Cave Road, Building 3, Suite 315, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

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

**THE BONDS**

**General Description**

The Bonds will bear interest from May 1, 2015 and will mature on September 1 of the years and in the principal amounts, and will bear interest at the rates per annum, set forth on the inside cover page hereof. Interest on the Bonds will be paid on September 1, 2015 and each March 1 and September 1 thereafter until maturity or earlier redemption and will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York, acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent and registrar for the Bonds is BOKF, N.A., dba Bank of Texas, Austin, Texas (the "Paying Agent" or "Paying Agent/Registrar").

**Redemption**

**Optional Redemption** . . . The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2022, in whole or from time to time in part, on September 1, 2021, 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.

**Mandatory Sinking Fund Redemption** . . . In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2029 are subject to mandatory sinking fund redemption prior to maturity by lot 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:

<b>\$325,000 Term Bond Maturing September 1, 2029</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2025	\$ 25,000
2026	25,000
2027	25,000
2028	25,000
2029*	225,000

\* Stated Maturity

The principal amount of the 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 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 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 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 Bonds or portions thereof prior to maturity a written notice of such redemption shall be sent by the Paying Agent by United States mail, first-class postage prepaid, at least 30 calendar days prior to the date fixed for redemption, to the registered owner of each Bond to be redeemed at its address as it appeared on the 45th calendar day prior to such redemption date and to major securities depositories and bond information services.

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District, if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent is required to select the Bonds of such maturity to be redeemed by lot.

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

#### **DTC Redemption Provision**

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

#### **Termination of Book-Entry-Only System**

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

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

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

**Limitation on Transfer of Bonds . . .** Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15<sup>th</sup>) calendar day of the month (whether or not a business day) 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 February 7, 2004, voters within the District authorized a total of \$47,900,000 of unlimited tax bonds. The Bonds constitute the fourth installment of unlimited tax new money bonds issued by the District. After the sale of the Bonds, \$37,120,000 principal amount of District unlimited tax bonds will remain authorized but unissued. The Bonds are issued pursuant to the terms and provisions of the Bond Order, Chapters 49 and 51 of the Texas Water Code, as amended, the bond election approved by the voters, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by the TCEQ.

#### **Source of and Security for Payment**

The Bonds will be payable from and secured by a pledge of the proceeds of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. 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 taxable property within the District at a rate from year to year sufficient, full allowance being made for 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 payment 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 its "Debt Service Fund" for the Bonds.

The Bonds are obligations solely of the District and are not obligations of the City of Dripping Springs, Texas; Hays County, Texas; the State of Texas; or any political subdivision or entity other than the District.

## **Payment Record**

The District has previously issued four series of bonds including: \$2,600,000 Unlimited Tax Bonds, Series 2009; \$3,500,000 Unlimited Tax Bonds, Series 2011; \$1,500,000 Unlimited Tax Bonds, Series 2012; and \$4,565,000 Unlimited Tax Refunding Bonds, Series 2013 (collectively, the "Previously Issued Bonds"). The District has not defaulted on the payment of principal of or interest on such Previously Issued Bonds.

## **Flow of Funds**

The Bond Order affirms creation, establishment and maintenance by the District of a Capital Projects Fund and a Debt Service 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 Initial Purchaser, the amount received from proceeds of the Bonds representing accrued and capitalized 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 to) 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.

## **Defeasance of Outstanding Bonds**

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

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

Until all Defeased Bonds shall have become due and payable, the Paying Agent shall perform the services of Paying Agent 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, and (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.

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.

**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 resolution authorizing the issuance of such bond, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Bond.

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

#### **Paying Agent/Registrar**

Principal of and semiannual interest on the Bonds will be paid by BOKF, N.A., dba Bank of Texas, having its office for payment in Austin, Texas, the initial Paying Agent/Registrar (the "Paying Agent"). The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

#### **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) calendar day of the month (whether or not a business day) preceding such interest payment date.

#### **Issuance of Additional Debt**

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. On February 7, 2004, voters within the District authorized the issuance of unlimited tax bonds in the principal amounts of \$47,900,000 for water and drainage facilities. Following the issuance of the Bonds, \$37,120,000 in unlimited tax bonds authorized by the District voters will remain authorized but unissued. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds."

According to the District's Engineer, the \$37,120,000 in principal amount of bonds authorized but unissued, should be sufficient to acquire or construct utility facilities to serve the District at ultimate development. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. The District also has the right to issue revenue bonds and notes without voter approval. Neither State law nor the Bond Order imposes a limitation on the amount of additional indebtedness which may be issued by the District. Any additional indebtedness issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

#### **Legal Investment and Eligibility to Secure Public Funds in Texas**

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a 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 which might apply to or otherwise limit the availability of the Bonds for investment or collateral purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds and as to the acceptability of the Bonds for investment or collateral purposes.

#### **Specific Tax Covenants**

In the Bond Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the manner in which the proceeds of the Bonds are to be invested. The District may 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 provides that, in addition to all other rights and remedies of any owner of Bonds provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order including payment when due of the principal of and interest on the Bonds, registered owners may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether Section 49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages 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 or to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion.

The Bond Order provides no additional remedies to a registered owner. Specifically, the Bond Order does not provide for an appointment of a trustee to protect and enforce the interests of the registered owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year to year by the registered owners.

Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The registered owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the registered owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions. See "INVESTMENT CONSIDERATIONS - Bankruptcy Limitation to Registered Owners' Rights."

### **Annexation**

The District is located outside the corporate limits of any city, however, portions of the District are now located within the extraterritorial jurisdiction of the City of Dripping Springs (the "City"). Under current State law, as a general law city, the City may only annex land within the District if the landowners of such land consent to annexation. At such time as the population of the City reaches 5,000, the City is authorized at its option to hold an election to ask the voters to decide whether or not to adopt a home rule charter which would expand the annexation powers of the City. Home-rule municipalities are authorized under State law to annex land within a district without landowner or district consent and to dissolve the district. As of the date hereof, the City population is approximately 1,500.

If annexation and dissolution were to occur, the City would assume the District's assets and obligations, including the Bonds. The District has no control or knowledge of the annexation plans of the City and 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.

### **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the drainage system) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

### **Alteration of Boundaries**

In certain circumstances under State law the District may, upon satisfying certain conditions, alter its boundaries to: 1) annex additional territory; and 2) exclude land subject to taxation within the District that is not served by District facilities if taxable land of equal or greater value is simultaneously annexed into the District so as not to impair the security for the District's bonds. No representation is made concerning the likelihood that the District would effect any change in its boundaries.



## **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.

## **Approval of the Bonds**

The TCEQ approved the issuance of the Bonds by an order issued March 20, 2015 (the "TCEQ Order"). Any person affected by the TCEQ Order has 30 days from the date of such order (i.e. until April 19, 2015) to file a petition to review, set aside, modify or suspend the act of the TCEQ approving the Bonds and the project. Additionally any person may file a motion to overturn the TCEQ Executive Director's approval of the District's application within 23 days of the mailing or hand delivery of the TCEQ Order. The TCEQ Order was mailed or hand delivered on April 1, 2015, and the 23 day period expires on April 23, 2015.

In addition, 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.

## **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

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

not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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## USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the costs of the following projects: (i) LUE reservation fees; (ii) City of Dripping Springs submittal fee, TCEQ plan review fee, and West Travis County Public Utility Agency review and inspections fees; and (iii) water distribution and drainage facilities serving Rim Rock Phase 1, Section 5 and Phase 2, Sections 3, 4, and 5.

In addition, proceeds of the Bonds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay certain engineering costs; (iii) pay developer interest; and (iv) pay certain costs associated with the issuance of the Bonds.

The use and distribution of Bond proceeds is set forth below. Of the proceeds to be received from the sale of the Bonds, \$2,468,281 is required for construction costs, and \$711,719 is required for non-construction costs, including \$211,658 of capitalized interest (approximately twenty-four months of interest at 3.327956%).

### Construction Costs

#### A. Developer Contribution Items

1. Rim Rock Phase 1 Section 5 - Clearing & Grubbing, and Excavation	\$ 79,530
2. Rim Rock Phase 1 Section 5 - Water and Drainage	308,880
3. Rim Rock Phase 2 Section 5 - Clearing & Grubbing, and Excavation	76,975
4. Rim Rock Phase 2 Section 5 - Water and Drainage	394,149
5. Rim Rock Phase 2 Section 3 - Clearing & Grubbing, and Excavation	138,894
6. Rim Rock Phase 2 Section 3 - Water and Drainage	716,332
7. Rim Rock Phase 2 Section 4 - Clearing & Grubbing, and Excavation	141,181
8. Rim Rock Phase 2 Section 4 - Water and Drainage	637,967
9. Engineering (12.3% of Items 1-8)	307,518
10. Contingencies (5% of Items 3 and 4)	23,556
11. Dripping Springs Submittal Fee	51,827
12. TCEQ Plan Review Fee	31,475
13. WTCPUA Review and Inspection Fee	82,773
<b>Total Developer Contribution Items</b>	<b>\$ 2,991,057</b>

#### B. District Items

1. Water Reservation Fees	46,060
<b>Total District Items</b>	<b>\$ 46,060</b>

#### Total Construction Costs

**\$ 3,037,117**

*Less Use of Surplus Maintenance and Operations Funds*

**\$ (568,836)**

#### Total Construction Bond Amount

**\$ 2,468,281**

### Non-Construction Costs

A. Legal fees (2.5%)	\$ 79,500
B. Fiscal Agent Fees (2.5%)	79,500
C. Interest Costs	
1 Capitalized Interest (24 months @ 3.327956%)	211,658
2 Developer Interest <sup>(a)</sup>	105,620
D. Bond Discount (3%)	95,400
E. Bond Issuance Expenses	36,169
F. Bond Application Report Costs	50,000
G. Attorney General Fee (0.10%)	3,180
H. TCEQ Bond Issuance Fee (0.25%)	7,950
I. Contingency <sup>(b)</sup>	42,742
<b>Total Non-Construction Costs</b>	<b>\$ 711,719</b>

#### TOTAL BOND ISSUE REQUIREMENT

**\$ 3,180,000**

(a) Preliminary; subject to change. The amount of Developer interest will be finalized in connection with the reimbursement report approved by the Board of Directors prior to disbursement of funds.

(b) The TCEQ, in its approval of the Bonds, directed any surplus Bond proceeds to be shown as a contingency line item and be subject to the TCEQ rules on use of surplus Bond funds.

## INVESTMENT CONSIDERATIONS

### General

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

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

*Developer under No Obligation to the District:* There is no commitment from, or obligation of, any Developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner’s right to sell its land. Failure to construct taxable improvements on developed lots and tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon the Developer 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 DEVELOPER” and “TAX DATA - Principal Taxpayers.”

*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 Texas market and the District.

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

*Maximum Impact on District Tax Rates:* Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2014 Certified Assessed Valuation of the District is \$130,663,879 (see “FINANCIAL STATEMENT”). After issuance of the Bonds, the Maximum Requirement will be \$764,635 (2027) and the Average Requirement will be \$723,678 (2015 through 2034, inclusive). Assuming no increase or decrease from the 2014 Certified Assessed Valuation, the issuance of no additional debt and no other funds available for the payment of debt

service, tax rates of \$0.62 and \$0.59 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. The District's Estimated Assessed Valuation as of February 1, 2015 is \$190,124,040. Based upon such value, tax rates of \$0.43 and \$0.41 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and Average Requirement, respectively. See "DEBT SERVICE REQUIREMENTS" and "TAX DATA - Tax Adequacy for Debt Service."

*Dependence on Major Taxpayers and the Developer . . .* The ten principal taxpayers represent \$12,043,504 or 9.22% of the District's 2014 Certified Taxable Assessed Valuation of \$130,663,879. The Developer and related entities represent \$4,844,374 or 3.71% of such value. If the Developer were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Order to maintain any specified amount of surplus in its interest and sinking fund. See "Tax Collection Limitations and Foreclosure Remedies" in this section, "TAX DATA – Principal Taxpayers," and "TAXING PROCEDURES – Levy and Collection of Taxes."

The Developer has informed the Board that its current plan is to continue marketing the remaining developed lots in the District to home builders. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of information related to any proposed development should not be interpreted as such a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer or any other landowner within the District to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developer or any other landowner. See "THE DEVELOPER."

*Undeveloped Acreage . . .* All but approximately 539.06 acres of developable land within the District has been provided with water and storm drainage and detention facilities as of March 1, 2015. In the opinion of the Murfee Engineering Company, (the "District's Engineer"), the remaining authorized but unissued bonds should be sufficient to fund water and drainage services to all areas now within the District. See "THE BONDS – Alteration of Boundaries" and "THE DISTRICT – History and Status of Development."

*Development and Home Construction in the District . . .* As of March 1, 2015, approximately 85 developed lots within the District remained available for construction. Failure of the Developer and/or builders to construct taxable improvements on developed lots could result in substantial increases in the rate of taxation by the District during the term of the Bonds to pay debt service on the Bonds and any other tax supported debt of the District issued in the future. Future increases in value will result primarily from the construction of homes by builders. See "Maximum Impact on District Tax Rates" above.

*Effects of Master Planned Community/Regulatory Constraints . . .* The Developer has represented that it intends to sell developed lots to homebuilders. See "THE DISTRICT" and "THE DEVELOPER." However, the Developer has no legal obligation to the District to carry out its current plans or any other plans of development within the District. Furthermore, there is no restriction on the Developer or other landowners selling their land. The District can make no prediction as to the effects that inflation, interest rates, a depressed economy, falling energy prices, potential transportation problems, flooding, environmental or other government regulations, or other factors, whether economic, governmental or otherwise, may have on the plans of the Developer. See "Factors Affecting Taxable Values and Tax Payments" above. Neither the Developer nor any subsidiaries, if any, are obligated to pay principal of and interest on the Bonds. See "THE DEVELOPER." Furthermore, the Developer has no binding commitment to the District to carry out any plans of development in the District, and the furnishing of information related to proposed development by a developer should not be interpreted as such a commitment.

## **Tax Collections and Foreclosure Remedies**

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. Additionally, the District's tax lien is on a parity with the liens of all other State and local taxing authorities on the property against which the taxes are levied. Registered owners 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.

### **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 District which is recovered by the District 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 absent such prepayment by the District 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" and "BOND INSURANCE" 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 Initial Purchaser 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 "MUNICIPAL BOND RATINGS" and "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.

### **Bankruptcy Limitation to Registered Owners' Rights**

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

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a registered owner by

reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the registered owner's claim against a district.

A district may not be forced into bankruptcy involuntarily.

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

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

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

### **Future Debt**

As of March 1, 2015, approximately 1,190.35 acres of land (or approximately 68.83% of the developable acres) within the District have been developed with utility facilities by the Developer and Green Builders. According to information obtained by the District's Engineer, after receiving proceeds from the Bonds, approximately \$923,900 (plus interest, engineering fees and water reservation fees) will remain owed to the Developer and Green Builders for water and drainage facilities which have been constructed to date. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Therefore, following the issuance of the Bonds, the Developer and Green Builders will be owed additional funds with reimbursements expected to be made from the proceeds of future installments of bonds over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE SYSTEM – Water Supply and Distribution." The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the 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."

The District reserves in the Bond Order the right to issue the remaining \$37,120,000 authorized but unissued bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order. As defined and described below, all of the remaining \$37,120,000 bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ, from time to time as improvement

needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

## **Environmental Regulations**

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.* The Federal Clean Air Act ("CAA") requires the United States Environmental Protection Agency (the "EPA") to adopt and periodically revise national ambient air quality standards ("NAAQS") for each air pollutant that may reasonably be anticipated to endanger public health or welfare. Areas that exceed the NAAQS for a given pollutant can be designated as nonattainment by the EPA. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so called State Implementation Plan ("SIP") entails enforceable control measures and time frames.

In 1997, the EPA adopted an ozone standard with a standard for fine particulates, often referred to as the 8-hour standard because it is based on an 8-hour average and is intended to protect public health against longer exposure. In 2008, the EPA tightened the existing eight-hour ozone standard from 0.08 ppm to 0.075 ppm. The Austin area, consisting of Williamson, Hays, Travis, Bastrop, and Caldwell Counties (the "Austin Area"), was not designated "nonattainment" for any NAAQS by the EPA in 2012; however, the Austin Area has been just below the 2008 eight-hour ozone standard.

On November 26, 2014, the EPA announced a new proposed ozone NAAQS range of between 65-70 ppb. The Austin Area is vulnerable to being designated nonattainment if the EPA adopts the new proposed ozone NAAQS or otherwise maintains the existing standard applied to more recent air quality monitoring data.

Should the Austin Area fail to achieve attainment under an EPA NAAQS, or should the Austin Area fail to satisfy a then effective SIP (for nonattainment or otherwise), or for any other reason should a lapse in conformity with the CAA occur, the Austin Area may be subjected to sanctions pursuant to the CAA. Under such circumstances, the TCEQ would be required under the CAA to submit to the EPA a new SIP under the CAA for the Austin Area. Due to the complexity of the nonattainment/conformity analysis, the status of EPA's implementation of any future EPA NAAQS and the incomplete information surrounding any SIP requirements for areas designated nonattainment under any future EPA NAAQS, the exact nature of sanctions or any potential SIP that may be applicable to the Austin Area in the future is uncertain. The CAA provides for mandatory sanctions, including the suspension of federal highway funding, should the State fail to submit a proper SIP, or associated submissions, or fail to revise or implement a SIP, or fail to comply with an existing SIP. Subject to certain exceptions, if the Austin Area falls out of conformity and the mandatory highway funding suspension sanction is implemented, the United States Secretary of Transportation may be prohibited from approving or awarding transportation projects or grants within the area.

It is possible that nonattainment, a lapse in conformity under the CAA, litigation involving injunctive or other relief, or other environmental issues may impact new industrial, commercial and residential development in the Austin Area.

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

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



October 11, 2006. Future regulations or requirements pertaining to these and other drinking water contaminants could require installation of more costly treatment facilities.

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

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

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

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

#### **Future and Proposed Legislation**

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

#### **Drought Conditions**

Central Texas, like other areas of the State, is experiencing drought conditions. The West Travis County Public Utility Agency (the "PUA") provides water service to residents in the District in amounts sufficient to service the residents of the District, however, as drought conditions continue water usage and rates could be impacted.

#### **No Requirement to Build on Developed Lots**

Currently, there is no requirement that builders owning developed lots within the District commence or complete construction of improvements within any particular time period. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable value in the District.

#### **Forward-Looking Statements**

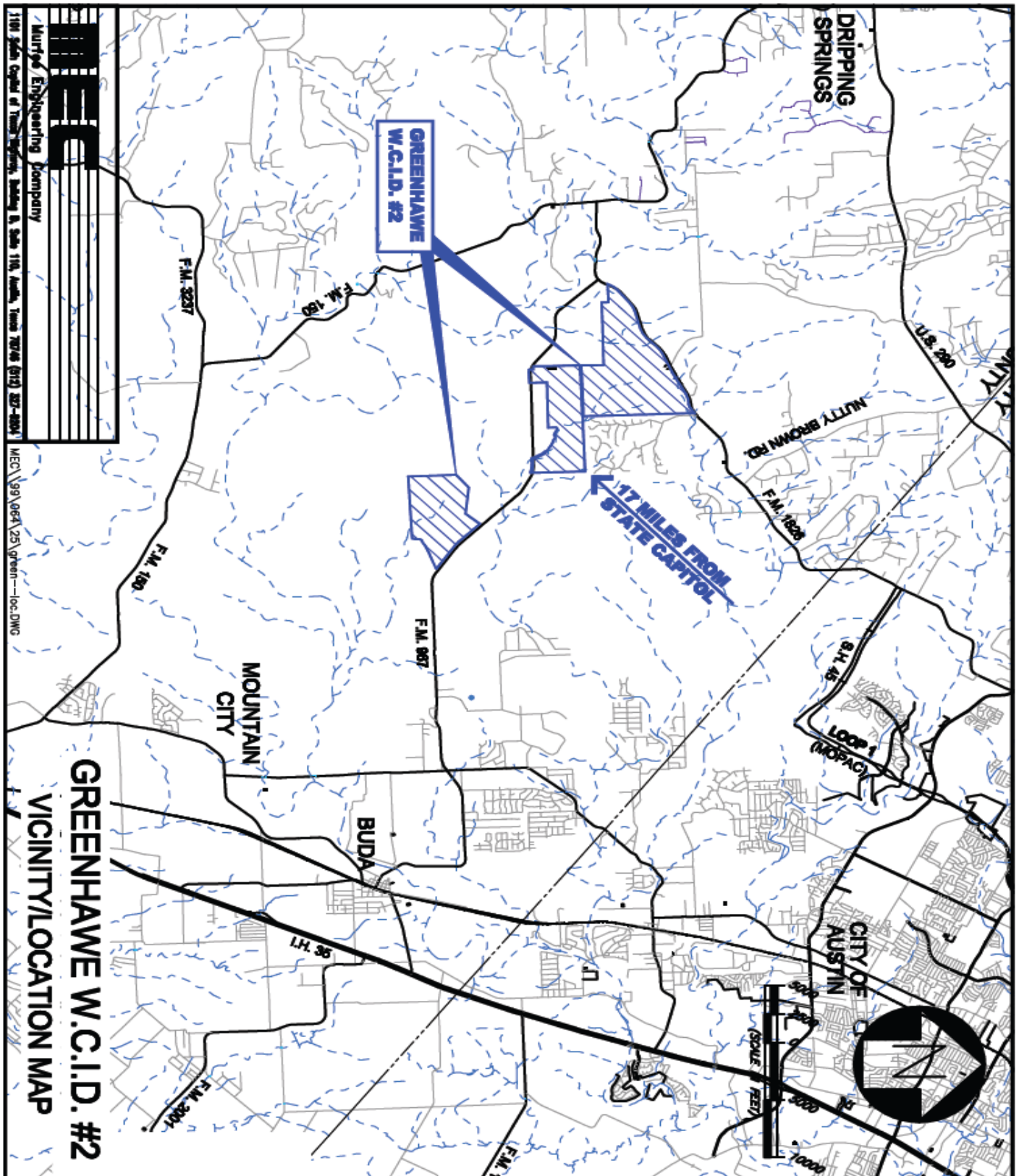
The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future.

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, 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 will prove to be accurate.

### LOCATION MAP



## THE DISTRICT

### General

Greenhawe Water Control & Improvement District No. 2 (the "District"), a political subdivision of the State of Texas, was created by order of the Hays County Commissioners Court, effective April 17, 2001, and confirmed pursuant to an election held within the District on November 4, 2003. The District was created for the purpose of providing, operating and maintaining facilities to control storm water and to distribute potable water and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, as amended.

### Management of the District

*Board of Directors:* Governed by a board, the District consists of five directors, which has control over and management supervision of all affairs of the District. Directors' terms are four years with elections held within the District on the first Tuesday after the first Monday in November in each even numbered year. All of the directors listed below reside or own property in the District.

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires November</u>
James A. Huffcut, Jr.	President	10- ½ years	2016
David Saxon	Vice President	4- ½ years	2018
Joan Moeller	Secretary	4 months	2018
Scott Roberts	Treasurer	8- ½ years	2016
Michael A. Schroeder	Asst. Secretary/Treasurer	9- ½ years	2016

### Consultants

#### *Tax Assessor/Collector*

The portion of land and improvements in the District that are located in Hays County are being appraised by the Hays Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Hays County Tax Assessor/Collector, Ms. Luanne Carraway, currently serves the District in this capacity under contract.

#### *Bond Counsel and Disclosure Counsel*

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

#### *General Counsel*

The District employs Armbrust & Brown, PLLC as General Counsel. Fees paid to General Counsel for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

#### *Financial Advisor*

Public Finance Group LLC serves as the District's Financial Advisor. The Financial Advisor's 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.

#### *Engineer*

The District's consulting engineer is Murfee Engineering Company, Inc. Such firm serves as consulting engineer to 20 other special districts.

#### *Bookkeeper*

Bott & Douthitt, P.L.L.C. ("B&D") Certified Public Accountants is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 53 other special districts.

## **Creation, Location and Boundaries**

The District was created by order of the Hays County Commissioners Court, effective April 17, 2001 and confirmed pursuant to a confirmation election held within the District on November 4, 2003. At the time of creation, the District contained approximately 544.50 acres. Since creation the District has approved the annexation of four tracts of land totaling approximately 2,056.08 acres and excluded two tracts of land totaling approximately 54.08 acres. The District is currently comprised of two non-contiguous parcels of land, which include approximately 2,546.50 acres of land located in north central Hays County of which approximately 1,729.41 acres are currently developable. The District is being developed as two single-family subdivisions including Rim Rock ("Rim Rock") and Rutherford West ("Rutherford West") which are situated adjacent to each other. The Greenhawe Tract ("Greenhawe") is an approximately 658.21 acre non-contiguous tract located to the south of Rutherford West that was purchased by private individuals and dedicated as a conservation easement which is not subject to further development. Rim Rock and Rutherford West are located south of FM 1826 and north of FM 967. Greenhawe is located along FM 967, approximately 3.4 miles east of the intersection of FM 1826 and FM 967. Approximately 1,888 acres of the District is currently located within the extraterritorial jurisdiction of the City of Dripping Springs, Texas.

## **Historical Development**

In 2000, LSM Ranch, Ltd. ("LSM" or "Developer") purchased approximately 1,237.86 acres from Mike Rutherford of which approximately 544.50 acres were originally included within the District boundaries. LSM is a Texas limited partnership and LSM GP, Inc., a Texas corporation, is the general partner of LSM, with John Lloyd serving as President. LSM purchased the acreage with a \$5,582,000 acquisition loan ("LSM acquisition loan") from International Bank of Commerce ("IBC"), and the LSM acquisition loan has since been repaid in full. LSM developed approximately 1,078.96 acres within the District with water, drainage facilities and internal roads as the residential subdivisions of Rim Rock Phase 1, Sections 1, 3, 4 and 5; Rim Rock Phase 2, Sections 2, 3, 4 and 5; and Rim Rock Phase 3, Sections 2 and 3. As of March 1, 2015, there were 675 single-family lots in Rim Rock, with 550 completed homes, 78 homes under construction and 46 vacant lots. See "THE DISTRICT – Current Status of Development" and "THE DEVELOPER - Description of the Developer."

In June 2005, Wilson Family Communities purchased approximately 735.84 acres within the District from SGL Development and SGL Investments. Wilson Family Communities was a Delaware corporation and a wholly owned subsidiary of Green Builders, a Texas corporation and Austin based home builder and developer of green homes and communities in Central Texas. From the time Wilson Family Communities purchased property within the District until early 2011 Clark Wilson served as the President and CEO of Wilson Family Communities and Green Builders. At the beginning of 2011, Clark Wilson resigned as President and CEO of Wilson Family Communities and Green Builders and, since February 15, 2011, William E. Weber has served as the President and CEO of Wilson Family Communities and Green Builders. Green Builders filed for Chapter 11 bankruptcy on August 12, 2011 and the bankruptcy court approved a plan of reorganization on February 10, 2012. The bankruptcy case was discharged and Green Builders has continued its business operations following the discharge of the bankruptcy proceedings. Wilson Family Communities merged into Green Builders effective May 23, 2012.

Wilson Family Communities purchased the 735.84 acres with a \$6,200,000 acquisition loan ("Green Builders Acquisition Loan") from a consortium of banks including RBC Centura Bank, Franklin Bank SSB and International Bank of Commerce, Laredo, Texas. The Green Builders Acquisition Loan was subsequently sold to a new consortium of banks with Wilmington Trust, N.A. acting as agent. From June 2005 until December 2008, Wilson Family Communities developed approximately 111.39 acres as the residential subdivision of Rutherford West as 58 single-family developed platted lots.

A portion of the Green Builders Acquisition Loan was refinanced with a \$7,300,000 loan from Graham Mortgage Corporation, a Texas investment and mortgage corporation located in Dallas, Texas ("Graham"), which was subsequently modified pursuant to a Modification and Forbearance Agreement dated January 6, 2009 among Wilson Family Communities, Green Builders and Graham Mortgage Corporation. In connection with such agreement, Wilson Family Communities delivered a deed in lieu of foreclosure for approximately 539.06 undeveloped acreage owned by Wilson Family Communities within the District. Wilson Family Communities was required under the agreement to sell the undeveloped acreage on or before December 31, 2009, which did not occur; therefore, Graham owns the approximate 539.06 undeveloped acreage pursuant to the deed in lieu of foreclosure. See "MAJOR LANDOWNER."

Since June 2005, Green Builders sold approximately 85.35 acres of undeveloped property to various individuals, sold approximately 41.16 acres as developed lots to various Private Homebuilders and developed approximately 111.39 acres with water, drainage facilities and internal roads as the residential subdivision of Rutherford West Sections 1 and 2 which includes 58 single-family developed platted lots. Green Builders has sold 53 lots to various individuals and Private Homebuilders and currently owns 5 single-family developed platted lots in Rutherford West, Section 2.

## **Current Status of Development**

Development of the District commenced in September, 2001, and, as of March 1, 2015, approximately 1,190.35 acres (or 68.83% of the approximately 1,729.41 developable acres within the District) have been developed with utility facilities as the single-family residential subdivisions of: Rim Rock Phase 1, Sections 1, 3, 4 and 5; Rim Rock Phase 2, Sections 2, 3, 4 and 5; Rim Rock Phase 3, Sections 2 and 3; and Rutherford West Sections 1 and 2. As of March 1, 2015, the District contained a total of 733 single-family developed platted lots comprised of 567 completed single-family homes, 80 homes under construction and 85 vacant developed single-family lots.

The following chart more completely describes the status of development within the District as of March 1, 2015:

Sections	Total Acreage <sup>(a)</sup>	Single-Family			
		Platted Lots	Completed Homes	Homes Under Construction	Vacant Lots
A. Developed with Utility Facilities					
<u>Rim Rock</u>					
Phase 1, Section 1	126.38	82	80 <sup>(b)</sup>	-	1
Phase 1, Section 3	83.71	52	49	3	-
Phase 1, Section 4	104.62	68	62	4	2
Phase 1, Section 5	86.64	47	43	4	-
Phase 2, Section 2	134.32	89	78	2	9
Phase 2, Section 3	139.38	79	38	37	4
Phase 2, Section 4	128.76	70	44	16	10
Phase 2, Section 5	41.05	27	-	12	15
Phase 3, Section 2	59.83	39	39	-	-
Phase 3, Section 3	174.26	122	117	-	5
<i>Subtotal</i>	1,078.96	675	550	78	46
<u>Rutherford West<sup>(c)</sup></u>					
Section 1	2.26	1	-	-	1
Section 2	109.13	57	17	2	38
<i>Subtotal</i>	111.39	58	17	2	39
<b>Total Acreage Developed with Utility Facilities</b>	<b>1,190.35</b>	<b>733</b>	<b>567</b>	<b>80</b>	<b>85</b>
B. Utility Facilities Under Construction					
N/A	-				
C. Remaining Undeveloped but Developable Acreage					
<u>Rim Rock</u>					
	-				
<u>Rutherford West</u>	539.06				
<b>Total Remaining Undeveloped but Developable Acreage</b>	<b>539.06</b>				
<b>Total Developable Acreage</b>	<b>1,729.41</b>				
D. Undevelopable Acreage					
<u>Rim Rock (Conservation Easement)</u>	158.88				
<u>Greenhawe (Conservation Easement)</u>	658.21				
<b>Total Undevelopable Acreage</b>	<b>817.09</b>				
<b>Total Acreage</b>	<b>2,546.50</b>				

(a) Acreage includes greenbelt and open space.

(b) Includes one home built on two lots.

(c) A portion of each lot within Rutherford West has been dedicated with a conservation easement.

## **Future Development**

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect any party's ability to sell lots and/or other property and of any home builder to sell completed homes as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." If the undeveloped portion of the District is eventually developed, additions to the District's water and drainage systems required to service such undeveloped acreage may be financed by future issues, if any, of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$37,120,000 remaining principal amount of voted water and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developer and Green Builders for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acres within the District. See "THE BONDS - Issuance of Additional Debt." The Developer is under no obligation to complete any development, if begun, and may modify or discontinue development plans in their sole discretion. Accordingly, the District makes no representation that future development will occur.

## **THE DEVELOPER**

### **Role of a Developer**

In general, the activities of a 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 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) pursuant to the rules of the TCEQ, and selling improved lots or commercial reserves to builders, other developers or third parties. Ordinarily, a developer pays one hundred percent (100%) of the costs of paving and amenity design and construction while the utility district finances the costs of the water supply and distribution, wastewater collection and drainage facilities. While a 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 the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the 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 Developer**

LSM is currently the only active developer within the District. LSM is a Texas limited partnership and LSM GP, Inc., a Texas corporation, is the general partner of LSM, with John Lloyd serving as President. In 2000, LSM purchased approximately 1,237.86 acres from Mike Rutherford of which approximately 544.50 acres were originally included within the District boundaries. LSM purchased the acreage with a \$5,582,000 acquisition loan ("LSM Acquisition Loan") from International Bank of Commerce ("IBC"), and the LSM Acquisition Loan has been repaid in full. See "THE DISTRICT – Historical Development."

### **Homebuilders**

There are six major homebuilders currently active within the District including: Lennar Homes of Texas Land & Construction, Ltd., MHI, Scott Felder Homes, LLC, Castle Rock Communities, Century Homes and Vintage Estates, in addition to a number of custom and semi-custom private homebuilders who are marketing lots within the District (the "Private Homebuilders") (collectively, the "Homebuilders").

The Developer has represented that the sales prices of homes being constructed generally range from approximately \$400,000 to \$750,000 with square footage ranging from approximately 3,500 to 6,500.

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Home construction in the District began in June 2004. The following chart illustrates the number of homes built per year since 2004.

Calendar Year	No. of Single-Family Homes Constructed
2004	2
2005	18
2006	25
2007	27
2008	49
2009	34
2010	5
2011	48
2012	59
2013	89
2014	197
2015	94*

\* As of March 1, 2015. Includes 14 completed single family homes and 80 single family homes under construction.

#### **MAJOR LANDOWNER**

Graham Mortgage Corporation, a Texas investment and mortgage corporation located in Dallas, Texas (“Graham”), owns approximately 539.06 undeveloped acres within the District. Graham acquired the acreage from Wilson Family Communities on December 31, 2009 pursuant to a deed in lieu of foreclosure which Graham was holding in escrow pursuant to a Modification and Forbearance Agreement dated January 6, 2009. Wilson Family Communities, Green Builders and Graham had entered into the Modification and Forbearance Agreement in order to modify the terms of a loan Graham had originally given to Wilson Family Communities for \$7,300,000 (the “Graham Loan”) in order to refinance a portion of the Green Builders Acquisition Loan. See “The DISTRICT- Historical Development.”

The approximate 539.06 undeveloped acreage is currently under an agricultural exemption, and Graham is currently actively marketing the property for sale.

#### **UTILITY CONSTRUCTION AGREEMENTS AND AGRICULTURAL WAIVER**

##### **Utility Construction Agreements**

The District has negotiated two separate utility construction agreements with LSM and Green Builders, respectively, which are currently in effect. The agreements are designed to define the conditions under which the District will issue bonds to reimburse LSM and Green Builders for the internal water and drainage facilities within the District. Under the terms of the utility construction agreements, the District has agreed to repay the cost of facilities through a series of bond sales over time. The District is not obligated to issue bonds in increments of less than \$1,000,000. The District’s obligation to issue bonds and to reimburse LSM and Green Builders for funds advanced for facilities is subject to various conditions, including approval of the Commission and the Texas Attorney General and a recommendation by the District’s financial advisor that the sale of the bonds is feasible and prudent.

##### **Agricultural Waiver**

LSM has executed an agreement which is recorded in the real property records and is a covenant running with the land waiving the right to have the majority of the property located in the Rim Rock development classified as agricultural, open space or timberland. In addition, such agreement waives the right of LSM to have its lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the Commission and is binding on purchasers of such land from LSM. See “TAXING PROCEDURES – Property Subject to Taxation by the District.”

Green Builders has executed an agreement which is recorded in the real property records and is a covenant running with the land waiving the right to have the majority of the property located in Rutherford West, Sections 1 and 2, classified as agricultural, open space or timberland. In addition, such agreement waives the right of Green Builders to have its lots and houses (if any) classified as business inventory. Such agreement may not be modified without the approval of the Commission and is binding on purchasers of such land from the Green Builders. See “TAXING PROCEDURES– Property Subject to Taxation by the District.”

## **THE SYSTEM**

### **Regulation**

The water and storm drainage facilities (the “System”), the purchase, acquisition and construction of which will be permanently financed by the District with the proceeds of the Bonds, have been designed in accordance with accepted engineering practices and the recommendation of certain governmental agencies having regulatory or supervisory jurisdiction over construction and operation of such facilities, including, among others, the TCEQ, Hays County, and the City of Dripping Springs. According to Murfee Engineering Company (the “District’s Engineer”), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the waterworks facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. The rules and regulations promulgated by these agencies change periodically and are subject to further development and revision. The TCEQ makes annual inspections of the water systems to assure compliance with their rules.

### **Water Supply and Distribution**

The District residents receive retail water utility services from the West Travis County Public Utility Agency (the “PUA”), the successor to the Lower Colorado River Authority (the “LCRA”). The District and the PUA negotiated the conditions to the assignment of the water services agreement entitled “Water Utility Facilities Acquisition Agreement between LCRA, LSM, Green Builders and the District dated March 26, 2008 (the “Water Facilities Agreement”), as amended, from the LCRA to the PUA to provide water service to the Rim Rock and Rutherford West developments within the District.

Under the provisions of the Water Facilities Agreement, the PUA provides retail water utility services to the District and the District does not own or operate any of the water facilities. LSM and Green Builders are responsible for the design and construction of the water facilities pursuant to the Water Facilities Agreement and the District is obligated to reimburse LSM and Green Builders for the cost of such facilities in accordance with the utility construction agreements LSM and Green Builders have entered into with the District. Upon completion, LSM and Green Builders are obligated to convey ownership of the water facilities to the PUA. The Water Facilities Agreement provides that 675 LUE’s are reserved for LSM and 291 LUE’s are reserved for Green Builders.

The water treatment, transmission, storage and distribution facilities of the system include a raw water intake on Lake Austin that pumps raw water to the water treatment plant located off Bee Cave Road (“FM 2244”) near the intersection with State Highway 71. The PUA system includes 13 major storage tanks (elevated and ground storage) and 6 main pump stations. Combined ground and elevated storage capacity amounts to approximately 7,400,000 gallons of water. The transmission and distribution system includes approximately 200 miles of pipe (4, 6, 8, 12, 16, and 24 inch diameter). The raw water intake was expanded to a capacity of 22 million gallons per day (“MGD”) which provides 20 MGD to the water treatment plant and 2 MGD for raw water irrigation. The water treatment plant is rated for 20 MGD and current average production from the water treatment plant is approximately 6.21 MGD. Maximum day production from the water treatment plant has totaled 13.4 MGD and serves an estimated population in excess of 20,000 (or approximately 8,800 Service Units). At full build-out, the PUA water system is expected to serve a total population of approximately 60,000 (or 27,000 Service Units). The District’s residents are retail customers of the PUA and continue to receive retail service after the PUA acquired the system from the LCRA.

LSM, SGL Investments, Ltd. and the District entered into the following agreements with the LCRA: a Cost Sharing and Reimbursement Agreement for Phase II of the Sawyer Ranch / Darden Hill Water Line, executed January 5, 2005, an Agreement for Construction and Conveyance of, and Reimbursement for Phases I and III of Sawyer Ranch / Darden Hill Water Line, executed May 4, 2005, and the Sawyer Ranch / Darden Hill Waterline Cost-Sharing Agreement, dated July 27, 2004 (collectively, the “Sawyer Waterline Construction and Reimbursement Agreements”). The Sawyer Ranch / Darden Hill Water Line, Phases I – III, (the “Sawyer Waterline”) is a 16” and 20” pipeline that extends south from HWY 290 along Sawyer Ranch Road to the District. The Sawyer Waterline has capacity to serve 6,645 LUEs, including LUEs allotted to LSM and SGL Investments, Ltd. According to the Sawyer Waterline Construction and Reimbursement Agreements, LSM and SGL Investments, Ltd. participated in financing their pro-rata shares of the design and construction costs of the Sawyer Waterline and are entitled to reimbursement of those costs from the PUA, including developer interest. Also, according to the Sawyer Waterline Construction and Reimbursement Agreements, ownership of the Sawyer Waterline will be conveyed to the PUA, as successor to the contract rights from LCRA, within a reasonable amount of time as agreed upon by all parties, assuming assignment to the PUA. According to the District’s Engineer, the Sawyer Waterline was completed in November, 2006, and according to the Developer, the Sawyer Waterline has been conveyed to the PUA. Pursuant to the Sawyer Waterline Construction and Reimbursement Agreements, the PUA will operate and maintain the Sawyer Waterline.

### **Wastewater Collection and Treatment**

Wastewater treatment is provided by individual on-site treatment and disposal systems owned and maintained by each homeowner.



## Storm Drainage

The District has a rolling topography with multiple unnamed natural drainage channels that ultimately lead to Little Bear, Bear Creek with a small portion leading to Onion Creek. Both creeks flow in a general easterly direction toward the Colorado River. Within the District, some drainage is directed to vegetated filter areas before being discharged into the natural drainage ways.

Road drainage in the District is roadside swale with street and driveway culverts and ribbon curving. Flow exiting the streets collects in the roadside swales eventually discharging into the unnamed tributaries and thence to Little Bear, Bear Creek and Onion Creek.

## 100-Year Flood Plain and Storm Drainage Information

According to the District's Engineer, there are approximately 168 acres within the District located within the planned designated Flood Hazard Area derived from a floodplain study executed as a part of the design of the development and from the FEMA panel numbers 48209C0120F, 48209C0140F and 48209C0255F dated September 2, 2005. Of the approximate 168 acres, approximately 163 acres are located within Rim Rock and Rutherford West and approximately 5 acres are located within Greenhawe.

## 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 from information obtained from the District's financial statements and records.

	Fiscal Year End				
	3/31/2015 <sup>(a)</sup>	9/30/2014 <sup>(b)</sup>	9/30/2013 <sup>(b)</sup>	9/30/2012 <sup>(b)</sup>	9/30/2011 <sup>(b)</sup>
<b>REVENUES</b>					
Property taxes, including penalties	\$ 637,475	\$ 534,468	\$ 245,592	\$ 176,845	\$ 418,733
Interest	1,558	2,686	382	556	1,470
Other	5	539	299	-	114
<b>TOTAL REVENUES</b>	<b>\$ 639,038</b>	<b>\$ 537,693</b>	<b>\$ 246,273</b>	<b>\$ 177,401</b>	<b>\$ 420,317</b>
<b>EXPENDITURES</b>					
Director Fees, including payroll	\$ 2,192	\$ 5,006	\$ 6,643	\$ 9,181	\$ 5,490
Legal Fees	9,341	23,676	26,236	30,528	29,195
Engineering Fees	10,622	17,918	20,526	19,816	22,787
Bookkeeping Fees	8,100	15,450	16,150	16,500	16,500
Audit Fees	12,000	11,500	11,500	11,000	9,500
Other Consulting Fees	730	781	420	334	846
Insurance	200	1,369	1,029	583	721
Tax Appraisal/Collection Fees	2,729	5,001	2,384	1,766	4,221
Other	292	1,732	1,116	993	7,390
Capital Outlay	-	-	-	377,908 <sup>(c)</sup>	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 46,207</b>	<b>\$ 82,433</b>	<b>\$ 86,004</b>	<b>\$ 468,609</b>	<b>\$ 96,650</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 592,831</b>	<b>\$ 455,260</b>	<b>\$ 160,269</b>	<b>\$ (291,208)</b>	<b>\$ 323,667</b>
<b>Beginning Fund Balance</b>	<b>\$ 876,142</b>	<b>\$ 420,882</b>	<b>\$ 260,613</b>	<b>\$ 554,872</b>	<b>\$ 231,205</b>
<b>Plus / (Less): Fund Transfers</b>	<b>(568,836)<sup>(d)</sup></b>	<b>-</b>	<b>-</b>	<b>(3,051)</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 900,137</b>	<b>\$ 876,142</b>	<b>\$ 420,882</b>	<b>\$ 260,613</b>	<b>\$ 554,872</b>

(a) Unaudited as of March 31, 2015. Represents 6 months of the District's current fiscal year.

(b) Audited.

(c) During fiscal year 2012, the District reimbursed the Developer for the water and drainage facilities serving Rim Rock Phase 1 Section 4 from funds in the General Operating Fund in the amount of \$377,908.

(d) The District expects to reimburse the Developer for a portion of the water and drainage facilities serving Rim Rock Phase 2 Section 4 from funds in the General Operating Fund in the amount of \$568,836 simultaneously with the closing of the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

**DEBT SERVICE REQUIREMENTS - TABLE 3**

**Greenhawe Water Control and Improvement District No. 2**

**\$3,180,000**

**Unlimited Tax Bonds, Series 2015**

**Dated Date: May 1, 2015**

**First Interest Payment Due: September 1, 2015**

Year Ending 31-Dec	Outstanding Bonds				The Bonds				Total	
	Principal	Interest		Total	Principal	Interest		Total	Principal and Interest	Debt Service Requirements
	Due (09/01)	Due (03/01)	Due (09/01)		(Due 9/01)	(Due 3/01)	(Due 9/01)			
2015	\$ 325,000	\$ 123,895	\$ 123,895	\$ 572,790	\$ 15,000	\$ -	\$ 33,146	\$ 33,146	\$ 48,146	\$ 620,936
2016	335,000	118,370	118,370	571,740	25,000	49,494	49,494	98,988	123,988	695,728
2017	360,000	114,083	114,083	588,165	25,000	49,119	49,119	98,238	123,238	711,403
2018	370,000	109,268	109,268	588,535	25,000	48,744	48,744	97,488	122,488	711,023
2019	390,000	103,905	103,905	597,810	25,000	48,369	48,369	96,738	121,738	719,548
2020	410,000	97,800	97,800	605,600	25,000	47,994	47,994	95,988	120,988	726,588
2021	425,000	90,926	90,926	606,853	25,000	47,619	47,619	95,238	120,238	727,090
2022	455,000	83,354	83,354	621,708	25,000	47,244	47,244	94,488	119,488	741,195
2023	475,000	74,883	74,883	624,765	25,000	46,869	46,869	93,738	118,738	743,503
2024	495,000	65,889	65,889	626,778	25,000	46,494	46,494	92,988	117,988	744,765
2025	520,000	57,674	57,674	635,348	25,000	46,119	46,119	92,238	117,238	752,585
2026	545,000	48,774	48,774	642,548	25,000	45,744	45,744	91,488	116,488	759,035
2027	570,000	39,449	39,449	648,898	25,000	45,369	45,369	90,738	115,738	764,635
2028	590,000	29,369	29,369	648,738	25,000	44,994	44,994	89,988	114,988	763,725
2029	380,000	18,644	18,644	417,288	225,000	44,619	44,619	89,238	314,238	731,525
2030	395,000	11,624	11,624	418,248	250,000	41,244	41,244	82,488	332,488	750,735
2031	110,000	4,198	4,198	118,395	500,000	37,494	37,494	74,988	574,988	693,383
2032	120,000	2,190	2,190	124,380	500,000	29,994	29,994	59,988	559,988	684,368
2033	-	-	-	-	675,000	22,181	22,181	44,363	719,363	719,363
2034	-	-	-	-	690,000	11,213	11,213	22,425	712,425	712,425
	<u>\$ 7,270,000</u>	<u>\$ 1,194,291</u>	<u>\$ 1,194,291</u>	<u>\$ 9,658,583</u>	<u>\$ 3,180,000</u>	<u>\$ 800,913</u>	<u>\$ 834,058</u>	<u>\$ 1,634,971</u>	<u>\$ 4,814,971</u>	<u>\$ 14,473,553</u>

**FINANCIAL STATEMENT**  
**(Unaudited as of April 1, 2015)**

**Assessed Value – Table 4**

2014 Certified Assessed Valuation	\$130,663,879 <sup>(a)</sup>
Estimated Assessed Valuation as of February 1, 2015	\$190,124,040 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)	\$ 10,450,000 <sup>(c)</sup>
Ratio of Gross Debt to 2014 Certified Assessed Valuation	8.00%
Ratio of Gross Debt to Estimated Assessed Valuation as of February 1, 2015	5.50%
2014 Tax Rate	
Debt Service	\$ 0.3708
Maintenance	<u>0.4792</u>
<b>Total 2014 Tax Rate</b>	<u><u>\$ 0.8500</u></u> <sup>(d)</sup>
Debt Service Fund Balance (as of April 22, 2015)	\$ 590,360 <sup>(e)</sup>

Area of District: 2,546.50 acres  
Estimated Population as of March 1, 2015: 1,985<sup>(f)</sup>

- (a) Assessed valuation of the District as of January 1, 2014, certified by the Hays Central Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Estimated Assessed Valuation as of February 1, 2015, as provided by HCAD is included solely for purposes of illustration. No taxes will be levied on this assessed value unless it is certified by HCAD.
- (c) Includes the Bonds.
- (d) The District levied 2014 tax rate of \$0.8500.
- (e) Unaudited as of April 22, 2015. Does not include approximately twenty-four months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
- (f) Based upon 3.5 residents per occupied single family home.

**Unlimited Tax Bonds Authorized but Unissued - Table 5**

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
2/7/2004	Water and Drainage	\$ 47,900,000	\$ 10,780,000 <sup>(a)</sup>	\$ 37,120,000
2/7/2004	Refunding	<u>71,850,000</u>	<u>730,000</u>	<u>71,120,000</u>
<b>Total</b>		<b>\$ 119,750,000</b>	<b>\$ 11,510,000</b>	<b>\$ 108,240,000</b>

- (a) Includes the Bonds.

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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
<b>A. New Money Bonds</b>				
06/01/09	Water and Drainage	2009	\$ 2,600,000	\$ 100,000
05/01/11	Water and Drainage	2011	3,500,000	1,380,000
11/01/12	Water and Drainage	2012	1,500,000	1,410,000
05/01/15	Water and Drainage	2015	3,180,000	3,180,000 <sup>(a)</sup>
<b>Total</b>			<b>\$ 10,780,000</b>	<b>\$ 6,070,000</b>
<b>B. Refunding Bonds</b>				
02/01/13	Refunding	2013	\$ 4,565,000	\$ 4,380,000
Subtotal			<b>\$ 4,565,000</b>	<b>\$ 4,380,000</b>
<b>Total</b>			<b>\$ 15,345,000</b>	<b>\$ 10,450,000</b>

(a) The Bonds.

## Cash and Investment Balances (Unaudited as of April 22, 2015) - Table 7

General Fund	\$ 1,385,131
Debt Service Fund	590,360 <sup>(a)</sup>
Capital Projects Fund	31,677

(a) Does not include approximately twenty-four months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.

## Investment Authority and Investment Practices of the District

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (10) through (12) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a 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, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Directors.

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

## Current Investments - Table 8

The District, as of April 22, 2015, is invested in TexPool, Money Market Accounts 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 April 22, 2015	
Cash	\$ 70,571
Money Market	201,309
TexPool	1,049,367
Certificates of Deposit	685,923
<b>Total Investments</b>	<b>\$ 2,007,168</b>

## 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		
Hays County	\$ 283,248,576	4/1/2015	0.970%	\$ 2,747,450
Hays CISD	26,222,875	4/1/2015	3.054%	800,748
Dripping Springs ISD	179,988,358	4/1/2015	4.764%	8,575,401
North Hays County ESD No. 1	(a)	4/1/2015	0.000%	-
Hays County ESD No. 6	(a)	4/1/2015	0.000%	-
Special Road District	(a)	4/1/2015	0.000%	-
Austin Community College District	6,480,148	4/1/2015	0.093%	6,033
<b>TOTAL ESTIMATED OVERLAPPING NET DEBT</b>				<b>\$ 12,129,633</b>
The District <sup>(b)</sup>	\$ 10,450,000	5/1/2015	100.00%	\$ 10,450,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 22,579,633</b>
<b>Ratio of Estimated and Overlapping Debt to 2014 Certified Assessed Valuation</b>				<b>17.28%</b>
<b>Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of February 1, 2015</b>				<b>11.88%</b>

(a) Taxing jurisdictions with no outstanding debt.

(b) Includes the Bonds.

## Overlapping Taxes for 2014

Overlapping Entity	2014 Tax Rate Per		2014 Tax Rate Per	
	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>	\$100 Assessed Valuation	Average Tax Bill <sup>(a)</sup>
	Hays County - Rutherford West	Hays County	Hays County - Rim Rock	Hays County
Hays County	\$0.425200	\$ 1,741	\$0.425200	\$ 1,741
Hays CISD <sup>(b)</sup>	1.537700	6,296	0.000000	-
Dripping Springs ISD <sup>(b)</sup>	0.000000	-	1.520000	6,224
North Hays County ESD No. 1	0.024800	102	0.024800	102
Hays County ESD No. 6	0.079500	326	0.079500	326
Special Road District	0.043800	179	0.043800	179
Austin Community College District <sup>(c)</sup>	0.094200	386	0.000000	-
The District	0.850000	3,480	0.850000	3,480
<b>Total</b>	<b><u>\$3.055200</u></b>	<b><u>\$ 12,510</u></b>	<b><u>\$2.943300</u></b>	<b><u>\$ 12,052</u></b>

(a) Based upon the 2014 average single family home value of \$409,460, as provided by HCAD.

(b) The District is located within 2 school districts; the Rutherford West subdivisions are within Hays ISD and the Rim Rock subdivisions are within Dripping Springs ISD.

(c) Only the Rutherford West subdivisions are within the Austin Community College District.

### TAX DATA

Classification of Assessed Valuation - Table 9

Type Property	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family Residence	\$ 120,248,050	88.94%	\$ 85,437,620	82.10%	\$ 66,765,590	75.47%
Real, Vacant Platted Lots	6,862,949	5.08%	5,278,211	5.07%	6,312,721	7.14%
Real, Acreage	6,172,740	4.57%	8,126,390	7.81%	8,489,820	9.60%
Farm & Ranch Improvements	1,959,450	1.45%	5,800	0.01%	5,800	0.01%
Tangible Personal, Business	279,042	0.21%	234,759	0.23%	126,506	0.14%
Real, Inventory	8,274,030	6.12%	12,652,570	12.16%	13,999,250	15.82%
Totally Exempt Property	364,930	0.27%	363,670	0.35%	363,580	0.41%
Less: Adjustments	(8,966,620)	-6.63%	(8,038,070)	-7.72%	(7,594,232)	-8.58%
<b>Total</b>	<b><u>\$ 135,194,571</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 104,060,950</u></b>	<b><u>100.00%</u></b>	<b><u>\$ 88,469,035</u></b>	<b><u>100.00%</u></b>

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## 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 audits and records of the District Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information. See "Classification of Assessed Valuation" above.

Year	Assessed Valuation <sup>(a)</sup>	Tax Rate	Tax Levy	Current		Total		Year Ending	
				Amount	%	Amount	%		
2006	\$ 8,641,551	\$ 0.8500	\$ 73,453	\$ 72,412	98.58%	\$ 72,412	98.58%	9/30/2007	(b)
2007	21,046,538	0.8500	178,896	171,158	95.67%	172,199	96.26%	9/30/2008	(b)
2008	46,778,621	0.8500	397,618	394,510	99.22%	402,248	101.16%	9/30/2009	(b)
2009	75,863,144	0.8506	629,067	626,969	99.67%	630,077	100.16%	9/30/2010	(b)
2010	74,355,442	0.8500	632,021	631,952	99.99%	634,047	100.32%	9/30/2011	(b)
2011	80,505,286	0.8500	684,294	684,294	100.00%	684,294	100.00%	9/30/2012	(b)
2012	88,469,035	0.8500	752,045	751,577	99.94%	751,577	99.94%	9/30/2013	(b)
2013	104,060,950	0.8500	884,926	883,305	99.82%	883,714	99.86%	9/30/2014	(b)
2014	130,663,879	0.8500	1,148,628	1,128,006	98.20%	1,128,006	98.20%	9/30/2015	(c)

(a) Assessed Valuation reflects the adjusted value at September 30<sup>th</sup> of each respective year, as included in the audited financial statements.

(b) Audited.

(c) Reflects collections through March 31, 2015. Taxes were due with no penalty by January 31, 2015.

## District Tax Rates - Table 11

Tax Rates per \$100 Assessed Valuation									
	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Debt Service</b>	\$ 0.3708	\$ 0.3374	\$ 0.5741	\$ 0.6309	\$ 0.2926	\$ 0.3180	\$ -	\$ -	\$ -
<b>Maintenance</b>	0.4792	0.5126	0.2759	0.2191	0.5574	0.5326	0.8500	0.8500	0.8500
<b>Total</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8506</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>	<b>\$ 0.8500</b>

### Debt Service Tax

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 November 4, 2003, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied a 2014 maintenance and operations tax of \$0.4792/\$100 assessed valuation.

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## Principal Taxpayers - Table 12

The following list of principal taxpayers was provided in the District's audited financial statements based on the 2014, 2013, and 2012 tax rolls of the District, which reflect ownership as of January 1, of each year shown.

Name	Type of Property	2014	2013	2012
LSM Ranch Ltd.	Real Land and Improvements	\$ 4,844,374	\$ 9,070,386	\$ 11,777,826
Scott Felder Homes LLC	Real Land and Improvements	1,652,430	801,220	1,328,280
Century Land Holdings LLC	Real Land and Improvements	1,145,840	(a)	(a)
Rutherford RH LP	Real Land and Improvements	1,082,640	1,082,640	(a)
The Brohn Group LLC	Real Land and Improvements	755,120	(a)	(a)
Homeowner	Real Land and Improvements	689,470	593,630	593,630
Lennar Homes of Texas Land & Construction Ltd	Real Land and Improvements	688,900	657,830	1,161,590
Homeowner	Real Land and Improvements	643,530	568,150	568,150
Homeowner	Real Land and Improvements	541,200	559,920	566,660
Gehan Homes Ltd.	Real Land and Improvements	(a)	1,215,760	1,007,810
Homeowner	Real Land and Improvements	(a)	538,090	(a)
Homeowner	Real Land and Improvements	(a)	533,380	(a)
Wilson Family Communities Inc.	Real Land and Improvements	(a)	(a)	1,672,680
Mercedes Homes of Texas Ltd.	Real Land and Improvements	(a)	(a)	601,910
<b>Total</b>		<u>\$ 12,043,504</u>	<u>\$ 15,621,006</u>	<u>\$ 19,278,536</u>
Percent of Assessed Valuation		9.22%	15.01%	21.79%

(a) Not a principal taxpayer for respective year.

## Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2014 Certified Assessed Valuation and the Estimated Assessed Valuation as of February 1, 2015, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS – Maximum Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2015 through 2034) .....	\$723,678
\$0.59 Tax Rate on 2014 Certified Assessed Valuation of \$130,663,879 @ 95% collections produces .....	\$732,371
\$0.41 Tax Rate on Estimated Assessed Valuation as of February 1, 2015 of \$190,124,040 @ 95% collections produces .....	\$740,533
Maximum Requirement on the Bonds and the Outstanding Bonds (2027) .....	\$764,635
\$0.62 Tax Rate on 2014 Certified Assessed Valuation of \$130,663,879 @ 95% collections produces .....	\$769,610
\$0.43 Tax Rate on Estimated Assessed Valuation as of February 1, 2015 of \$190,124,040 @ 95% collections produces .....	\$776,657

## Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/15 .....	\$620,936 <sup>(a)</sup>
Audited Debt Service Fund Balance as of 9/30/2014 .....	\$228,412 <sup>(b)</sup>
Capitalized Interest included in the proceeds of the Bonds .....	\$211,658 <sup>(c)</sup>
2014 Tax Levy @ 95% collections produces .....	<u>\$460,277 <sup>(d)</sup></u>
Total Available for Debt Service .....	<u>\$900,347</u>

(a) Interest payments on the Bonds begin September 1, 2015.

(b) Audited debt service fund balance as of September 30, 2014. Represents debt service fund balance after all 2014 debt service requirements have been paid.

(c) Approximately twenty-four months of capitalized interest to be deposited into the Debt Service Fund from proceeds of the Bonds at closing.

(d) The District levied a 2014 debt service tax rate of \$0.3708.

## TAXING PROCEDURES

### Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, their pro rata share of debt service on any contract tax bonds and any additional bonds or obligations 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 its water system and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA – District Bond Tax Rate Limitation,” and “TAX DATA – Maintenance Tax.”

### Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. HCAD has the responsibility for appraising property for all taxing units within Hays County, including the District. Such appraisal values are subject to review and change by the Hays 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 State law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Appraisal District to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth, or fraternal organizations. Goods, wares, ores and merchandise (other than oil, gas, or petroleum products) that are acquired in or imported into the state and forwarded out of state within 175 days thereafter are also exempt. Property owned by a disabled veteran or by the spouse of certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran’s residence homestead. Additionally, effective January 1, 2012, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District’s preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District’s voters may approve. The District’s tax assessor/collector is authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemptions by the district.

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

**Tax Abatement:** Hays 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 not taken action to tax goods-in-transit.

### **Valuation of Property for Taxation**

Generally, property in the District must be appraised by the HCAD 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 HCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the HCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the HCAD 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 HCAD 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 HCAD 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 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 rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

## **District's Rights In The Event Of Tax Delinquencies**

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT – Overlapping Taxes for 2014". 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 residential homestead property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records other property may be redeemed by a taxpayer within 180 days of such filing) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS – Tax Collections and Foreclosure Remedies."

## **Effect of FIRREA on Tax Collections**

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 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**

### **Legal Opinions**

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

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

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 Initial Purchaser 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 Initial Purchaser 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.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law") (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX B -- Form of Bond Counsel 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 is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

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

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

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

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

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

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

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

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM 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 "financial institution" allocable to tax-exempt obligation, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service**

takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

## **CONTINUING DISCLOSURE OF INFORMATION**

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

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables 2 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 the MSRB**

The District has agreed to provide the foregoing information only to the MSRB. All documents provided by the District to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

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

## **Limitations and Amendments**

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

The District may amend its continuing disclosure undertaking from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determined that such amendment will not materially impair the interest of the Holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure undertaking 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.

## **Compliance with Prior Undertakings**

For the last five years, the District has complied in all material respects with its continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

For the fiscal year ended September 30, 2011, the District inadvertently did not include the number of Living Unit Equivalent or water connections in the District in its Audited Financial Statements. This omission has been identified, corrected and filed with EMMA. The District has established procedures to ensure future compliance with its continuing disclosure undertaking.

## **FINANCIAL ADVISOR**

The Official Statement was compiled and edited under the supervision of Public Finance Group LLC (the "Financial Advisor"), which firm was employed in 2014 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.

## **OFFICIAL STATEMENT**

### **Preparation**

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

"THE DISTRICT" – LSM and Green Builders; "THE SYSTEM" – District Engineer; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" - Hays Central Appraisal District; "FINANCIAL STATEMENT - Estimated Overlapping Debt Statement" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" and "THE SYSTEM - Water Supply and Distribution" - Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS" (except "Payment Record"), "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except "Compliance with Prior Undertakings") - 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 Murfee Engineering, Inc., and has been included in reliance upon the authority of said firm in the field of civil engineering.

The Auditor: The District's financial statements for the fiscal year ended September 30, 2014 were prepared by Maxwell, Locke & Ritter LLP ("MLR"), Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2014 final audited financial statements.



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 Hays Central Appraisal District, in reliance upon their authority in the field of appraising and tax assessing.

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

### Updating the Official Statement During Underwriting Period

If, subsequent to the date of the Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the District learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the District will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the notice of sale accompanying this Official Statement. See "DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS - Delivery." The obligation of the District to update or change the Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the District that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the District in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity in reliance upon the experts and sources listed above, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. All changes in the affairs of the District and other matters described in the Official Statement subsequent to the delivery of the Bonds and all information with respect to the resale of the Bonds are the responsibility of the Initial Purchaser.

### 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 once the District has issued bonds or has assets or receipts in excess of \$100,000. Prior to selling bonds or having assets over \$100,000, the District is allowed under State law to file a financial report in lieu of an audit. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

This Official Statement was approved by the Board of Directors of Greenhawe Water Control and Improvement District No. 2, as of the date shown on the first page hereof.

/s/ James A. Huffcut, Jr.  
President, Board of Directors

/s/ Joan Moeller  
Secretary, Board of Directors

## PHOTOGRAPHS

The following photographs were taken in the District. The homes and recreational facilities 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 Statements**

The information contained in this appendix has been excerpted from the audited financial statements of Greenhawe Water Control and Improvement District No. 2 for the fiscal year ended September 30, 2014. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**GREENHAWE  
WATER CONTROL AND  
IMPROVEMENT DISTRICT  
NO. 2**

**Financial Statements and  
Supplemental Information  
as of and for the Year Ended  
September 30, 2014 and  
Independent Auditors' Report**

# GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2

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**ANNUAL FILING AFFIDAVIT**



# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS

COUNTY OF HAYS

I, \_\_\_\_\_ of the  
(Name of Duly Authorized District Representative)

GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2  
(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 **28th day of January, 2015** its annual audit report for the fiscal year ended **September 30, 2014** and that copies of the annual audit report have been filed in the District's office, located at:

100 Congress Ave., 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: \_\_\_\_\_, \_\_\_\_\_ By: \_\_\_\_\_  
(Signature of District Representative)

\_\_\_\_\_  
(Typed Name and Title of District Representative)

Sworn to and subscribed to before me this \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(SEAL)

\_\_\_\_\_  
(Signature of Notary)

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

## **INDEPENDENT AUDITORS' REPORT**



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 303 East Main Street

Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Greenhawe Water Control and Improvement District No. 2:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Greenhawe Water Control and Improvement District No. 2 (the "District"), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"*

*This firm is not a CPA firm*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-7 and FS-16, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas supplemental information and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Texas supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplemental information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Maxwell Locke + Ritter LLP*

Austin, Texas

January 28, 2015

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

# **GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **YEAR ENDED SEPTEMBER 30, 2014**

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In accordance with Governmental Accounting Standards Board ("GASB") Statement 34, the management of Greenhawe Water Control and Improvement District No. 2 (the "District") offers the following discussion and analysis to provide an overview of the District's financial activities for the year ended September 30, 2014. Since this information is designed to focus the on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's basic financial statements that follow.

#### **FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the total fund balance was \$876,142, an increase of \$455,260 from the previous fiscal year.
- *Debt Service Fund:* Fund balance restricted for debt service decreased from \$444,489 in the previous fiscal year to \$228,412 in the current fiscal year. The Debt Service Fund made principal payments of \$305,000 and interest payments of \$258,153 during the current fiscal year.
- *Capital Projects Fund:* Fund balance restricted for capital projects increased from \$29,595 in the previous fiscal year to \$29,605 in the current fiscal year.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$164,178 in the current fiscal year. Net position increased from a deficit balance of \$161,091 at September 30, 2013 to a positive balance of \$3,087 at September 30, 2014.

#### **OVERVIEW OF THE DISTRICT**

The District, a political subdivision of the State of Texas, was created by order of the Commissioners Court of Hays County, Texas on April 17, 2001. The District was created and established as a water control and improvement district under terms and provisions and with the power and authority established by Chapters 49 and 51 of the Texas Water Code, as amended, except the powers and functions provided in Section 51.331, with jurisdiction over the land within its boundaries. By order of the Texas Commission on Environmental Quality dated December 21, 2010, the District's powers were expanded to include all drainage and stormwater management powers. The District lies wholly within the boundaries of Hays County, Texas, and partly within the extraterritorial jurisdiction of Dripping Springs, Texas, and is situated approximately 14 miles northwest of the central business district of the City of Buda, Texas.

# **GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2 MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2014**

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## **USING THIS ANNUAL REPORT**

This annual report consists of six parts:

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

For purposes of GASB Statement No. 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 Position and the Statement of Activities.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The *Statement of Net Position 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 position will indicate financial health.

The *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances* 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 Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balances*.

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



**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase (Decrease)
	2014	2013	
Current and other assets	\$ 1,154,687	\$ 902,989	\$ 251,698
Capital and non-current assets	6,054,783	6,185,258	(130,475)
Total Assets	<u>7,209,470</u>	<u>7,088,247</u>	<u>121,223</u>
Deferred Charges on Refunding	<u>79,662</u>	<u>328,898</u>	<u>(249,236)</u>
Current Liabilities	364,167	332,743	31,424
Long-term Liabilities	<u>6,921,878</u>	<u>7,245,493</u>	<u>(323,615)</u>
Total Liabilities	<u>7,286,045</u>	<u>7,578,236</u>	<u>(292,191)</u>
Net investment in capital assets	(1,082,828)	(1,006,742)	(76,086)
Restricted for debt service	209,042	424,457	(215,415)
Unrestricted	<u>876,873</u>	<u>421,194</u>	<u>455,679</u>
Total Net Position	<u>\$ 3,087</u>	<u>\$ (161,091)</u>	<u>\$ 164,178</u>

The District's combined net position increased from a deficit balance of \$161,091 in the previous fiscal year to a positive balance of \$3,087 in the current fiscal year. Some of these assets are accounted for by capital assets or restricted for debt service. The District's unrestricted net position, which can be used to finance day to day operations, totaled \$876,873 at September 30, 2014.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2014	2013	
Property taxes, including penalties	\$ 886,771	\$ 758,238	\$ 128,533
Interest	4,627	1,982	2,645
Other	539	299	240
Total Revenues	<u>891,937</u>	<u>760,519</u>	<u>131,418</u>
Legal fees	23,676	26,236	(2,560)
Engineering fees	17,918	20,526	(2,608)
Other	46,146	48,078	(1,932)
Debt Service	258,923	550,875	(291,952)
Depreciation	130,475	128,063	2,412
Amortization	250,621	170,567	80,054
Total Expenses	<u>727,759</u>	<u>944,345</u>	<u>(216,586)</u>
Change in Net Position	164,178	(183,826)	348,004
Beginning Net Position	<u>(161,091)</u>	<u>22,735</u>	<u>(183,826)</u>
Ending Net Position	<u>\$ 3,087</u>	<u>\$ (161,091)</u>	<u>\$ 164,178</u>

Revenues were \$891,937 for the fiscal year ended September 30, 2014 while expenses were \$727,759. Net position increased \$164,178 during the 2014 fiscal year.

Property taxes, including penalties, totaled \$886,771 during the 2014 fiscal year. Included in these taxes are real and personal property taxes which are assessed October 1 and payable before the following January 31.

The District's assessed value in fiscal year 2014 (which is based on the 2013 tax levy) was approximately \$104.1 million compared to \$88.5 million in fiscal year 2013. The tax rate is set after reviewing the operating and debt service requirements and appraised values determined by Hays County. The ad valorem tax rate for fiscal year 2014 was \$0.85 per \$100 assessed valuation. The ad valorem tax rate for fiscal year 2013 was \$0.85 per \$100 assessed valuation. The District's primary revenue source is property taxes.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cash and investments	\$ 1,104,378	\$ 901,744	\$ 646,873	\$ 1,174,915
Receivables	54,690	8,287	83,268	107,165
Prepaid expenses	48,411	-	-	-
Total Assets	<u>\$ 1,207,479</u>	<u>\$ 910,031</u>	<u>\$ 730,141</u>	<u>\$ 1,282,080</u>
Accounts payable	\$ 19,316	\$ 7,062	\$ 18,502	\$ 11,368
Other liabilities	52,792	7,042	67,513	48,118
Total Liabilities	<u>72,108</u>	<u>14,104</u>	<u>86,015</u>	<u>59,486</u>
Deferred Inflows of Resources	<u>1,212</u>	<u>961</u>	<u>68</u>	<u>72</u>
Restricted	258,017	474,084	383,445	667,650
Assigned	68,302	-	-	345,717
Unassigned	807,840	420,882	260,613	209,155
Total Fund Balance	<u>1,134,159</u>	<u>894,966</u>	<u>644,058</u>	<u>1,222,522</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 1,207,479</u>	<u>\$ 910,031</u>	<u>\$ 730,141</u>	<u>\$ 1,282,080</u>

As of September 30, 2014, the District's governmental funds reflect a combined fund balance of \$1,134,159. This fund balance includes a \$455,260 increase in the General Fund balance.

The Debt Service Fund reflects a decrease in fund balance of \$216,077 in fiscal year 2014. The Debt Service Fund made principal payments of \$305,000 and interest payments of \$258,153 in fiscal year 2014. More detailed information about the District's debt is presented in the *Notes to the Basic Financial Statements*.

The Capital Projects Fund purchases the District's infrastructure. The Capital Projects Fund had a \$10 increase in fund balance for fiscal year 2014.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating expenses. On September 10, 2013, the Board of Directors approved a budget including revenues of \$532,020 as compared to expenses of \$117,134 for the 2014 fiscal year. When comparing actual figures to budgeted amounts, the District had a positive variance of \$40,374 for fiscal year 2014. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CAPITAL ASSETS**

The District's governmental activities have invested \$6,054,783 in infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	<u>9/30/2014</u>	<u>9/30/2013</u>
Water/Drainage System	\$ 6,523,779	\$ 6,523,779
Less: Accumulated Depreciation	<u>(468,996)</u>	<u>(338,521)</u>
Total Net Capital Assets	<u>\$ 6,054,783</u>	<u>\$ 6,185,258</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:

	<u>Bonds Payable</u>
Series 2009	\$ 100,000
Series 2011	1,380,000
Series 2012	1,410,000
Series 2013	<u>4,380,000</u>
Total	<u>\$ 7,270,000</u>

The District owes approximately \$7.3 million to bond holders. During the year, the District's principal balance was reduced by \$305,000. The ratio of the District's long-term debt to total taxable assessed valuation (\$104,060,950) is 7.0%. The District's estimated population, as provided by the District as of September 30, 2014, is 935. More detailed information about the District's long-term debt is presented in the *Notes to the Financial Statements*.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2014**

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**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

The property tax assessed value and taxable value for 2014 is approximately \$135 million. The fiscal year 2015 tax rate is \$0.85 on each \$100 of taxable value. Approximately 56% of the property tax will fund general operating expenses, and approximately 44% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2015 projects an operating fund balance decrease of \$68,302.

**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.

**BASIC  
FINANCIAL STATEMENTS**

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**SEPTEMBER 30, 2014**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Net Position
<b><u>ASSETS</u></b>						
Cash and cash equivalents:						
Cash on deposit	\$ 51,160	\$ -	\$ -	\$ 51,160	\$ -	\$ 51,160
Cash equivalent investments	105,820	230,727	31,671	368,218	-	368,218
Investments	685,000	-	-	685,000	-	685,000
Receivables:						
Taxes	731	481	-	1,212	-	1,212
Interfund receivable	52,792	-	-	52,792	(52,792)	-
Interest	686	-	-	686	-	686
Prepaid expenditures	-	-	48,411	48,411	-	48,411
Capital assets, net of accumulated depreciation-						
Water/drainage system	-	-	-	-	6,054,783	6,054,783
<b>TOTAL ASSETS</b>	<b>\$ 896,189</b>	<b>\$ 231,208</b>	<b>\$ 80,082</b>	<b>\$ 1,207,479</b>	<b>6,001,991</b>	<b>7,209,470</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>						
Deferred charges on refundings	\$ -	\$ -	\$ -	\$ -	79,662	79,662
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>79,662</b>	<b>79,662</b>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 19,316	\$ -	\$ -	\$ 19,316	-	19,316
Accrued bond interest payable	-	-	-	-	19,851	19,851
Interfund payable	-	2,315	50,477	52,792	(52,792)	-
Long-term liabilities:						
Due within one year	-	-	-	-	325,000	325,000
Due after one year	-	-	-	-	6,921,878	6,921,878
<b>TOTAL LIABILITIES</b>	<b>19,316</b>	<b>2,315</b>	<b>50,477</b>	<b>72,108</b>	<b>7,213,937</b>	<b>7,286,045</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Deferred revenue - property taxes	731	481	-	1,212	(1,212)	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>731</b>	<b>481</b>	<b>-</b>	<b>1,212</b>	<b>(1,212)</b>	<b>-</b>
<b><u>FUND BALANCE / NET POSITION</u></b>						
Fund balances:						
Restricted for debt service	-	228,412	-	228,412	(228,412)	-
Restricted for capital projects	-	-	29,605	29,605	(29,605)	-
Assigned for 2014-15 budget deficit	68,302	-	-	68,302	(68,302)	-
Unassigned	807,840	-	-	807,840	(807,840)	-
<b>TOTAL FUND BALANCES</b>	<b>876,142</b>	<b>228,412</b>	<b>29,605</b>	<b>1,134,159</b>	<b>(1,134,159)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 896,189</b>	<b>\$ 231,208</b>	<b>\$ 80,082</b>	<b>\$ 1,207,479</b>		
Net position:						
Net investment in capital assets					(1,082,828)	(1,082,828)
Restricted for debt service					209,042	209,042
Unrestricted					876,873	876,873
<b>TOTAL NET POSITION</b>					<b>\$ 3,087</b>	<b>\$ 3,087</b>

*The accompanying notes are an integral part of this statement.*

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**YEAR ENDED SEPTEMBER 30, 2014**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Activities
<b>REVENUES:</b>						
Property taxes, including penalties	\$ 534,468	\$ 352,052	\$ -	\$ 886,520	\$ 251	\$ 886,771
Interest	2,686	1,931	10	4,627	-	4,627
Other	539	-	-	539	-	539
<b>TOTAL REVENUES</b>	<b>537,693</b>	<b>353,983</b>	<b>10</b>	<b>891,686</b>	<b>251</b>	<b>891,937</b>
<b>EXPENDITURES / EXPENSES:</b>						
Director fees, including						
payroll taxes	5,006	-	-	5,006	-	5,006
Legal fees	23,676	-	-	23,676	-	23,676
Engineering fees	17,918	-	-	17,918	-	17,918
Bookkeeping fees	15,450	-	-	15,450	-	15,450
Audit fees	11,500	-	-	11,500	-	11,500
Tax appraisal/collection fees	5,001	3,292	-	8,293	-	8,293
Other consulting fees	781	515	-	1,296	-	1,296
Insurance	1,369	-	-	1,369	-	1,369
Other	1,732	1,500	-	3,232	-	3,232
Debt service:						
Principal	-	305,000	-	305,000	(305,000)	-
Interest	-	258,153	-	258,153	(830)	257,323
Fiscal agent fees	-	1,600	-	1,600	-	1,600
Amortization	-	-	-	-	250,621	250,621
Depreciation	-	-	-	-	130,475	130,475
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>82,433</b>	<b>570,060</b>	<b>-</b>	<b>652,493</b>	<b>75,266</b>	<b>727,759</b>
Excess / (deficiency) of revenues over / (under) expenditures	455,260	(216,077)	10	239,193	(75,015)	164,178
<b>FUND BALANCE / NET POSITION:</b>						
Beginning of the year	420,882	444,489	29,595	894,966	(1,056,057)	(161,091)
End of the year	\$ 876,142	\$ 228,412	\$ 29,605	\$ 1,134,159	\$ (1,131,072)	\$ 3,087

*The accompanying notes are an integral part of this statement.*



**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

# **GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

### **YEAR ENDED SEPTEMBER 30, 2014**

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#### **1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Greenhawe Water Control and Improvement District No. 2 (the "District") relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles ("GAAP") as applied to governmental entities. GAAP for local governments includes 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** - The District was duly created by order of the Commissioners Court of Hays County, Texas on April 17, 2001, with the power and authority established pursuant to the provisions of Chapters 49 and 51 of the Texas Water Code. The reporting entity of the District encompasses those activities and functions over which the District's elected officials exercise significant oversight or control. A five member Board of Directors (the "Board") governs the District which has been elected by District residents or appointed by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 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. In addition, there are no component units included in the District's reporting entity.

**Basis of Presentation - Government-Wide and Fund Financial Statements** - The 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. GASB 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 General Fund budget with actual results.

#### **Government-Wide Financial Statements**

The District's Statement of Net Position 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.

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.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Financial Statements**

Fund based financial statement columns are provided for governmental funds. GASB Statement No. 34 sets forth minimum criteria (percentage of assets and deferred outflows of resources, liabilities and deferred inflows of resources, 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, deferred outflows of resources, liabilities, deferred inflows of resources, 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 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 Position.

**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.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 deferred outflows of resource and current liabilities and deferred inflows of resources 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 fund balance. 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 GAAP.

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 inflows of resources. The District has made no such accrual for the year ended September 30, 2014. All other revenues of the District are recorded on the accrual basis in all funds.

The District reports deferred inflows of resources on its combined balance sheet. Deferred inflows of resources 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 balance for deferred inflows is removed from the combined balance sheet and revenue is recognized.

**Budgets and Budgetary Accounting** - A budget was adopted on September 10, 2013, for the General Fund on a basis consistent with GAAP. The District’s Board utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

**Accounting Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

**Prepaid Expenditures** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in both the government-wide and fund financial statements. Prepaid expenditures will be charged to expenditures when consumed.

**Capital Assets** - Capital assets are reported in the government-wide column in the Statement of Net Position. Public domain ("infrastructure") capital assets including water 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.

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

<u>Asset</u>	<u>Years</u>
Water/drainage system	5 - 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** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the government-wide statement of net position. Bond premiums and discount are deferred over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in both the government-wide and the fund financial statements.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred Outflows and Deferred Inflows of Resources** - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 7 for additional information on deferred outflows of resources.

**Fund Equity** - The District complies with 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.

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

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

Fund balances - total governmental funds		\$	1,134,159
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds:			
Capital assets	6,523,779		
Less: Accumulated depreciation	<u>(468,996)</u>		6,054,783
Revenue is recognized when earned in the government-wide statements, regardless of availability. Governmental funds report deferred revenue for revenues earned but not available.			1,212
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:			
Bonds payable	(7,270,000)		
Bond discount and deferred charges, net	102,784		
Accrued bond interest payable	<u>(19,851)</u>		<u>(7,187,067)</u>
Total net position		\$	<u>3,087</u>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS (continued)**

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 - total governmental funds		\$	239,193
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report:			
Bond principal in year paid	305,000		
Interest expenditures in year paid	830		
Tax revenue in year paid	<u>251</u>		306,081
Governmental funds do not report:			
Depreciation	(130,475)		
Amortization	<u>(250,621)</u>		<u>(381,096)</u>
Change in net position		\$	<u><u>164,178</u></u>

**3. CASH, CASH EQUIVALENTS 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, 2014, the carrying amount of the District's deposits was \$51,160 and the bank balance was \$51,937. The bank balance was covered by federal depository insurance.

**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.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

**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; or
- Money market mutual funds with investment objectives of maintaining a stable net asset value of \$1 per share; or
- Mutual funds rated in one of the three highest categories by a nationally recognized rating agency; or
- 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; or
- Public funds investment pools rated AAA or AAA-m by a nationally recognized rating agency.

At September 30, 2014, the District held the following investments:

Cash Equivalents and Investments	Fair Market Value at 9/30/2014	Weighted Average Maturity (Days)	Investment Rating	
			Rating	Rating Agency
TexPool	\$ 167,494	1	AAAm	Standard & Poors
Certificates of Deposit	685,000	145	Various	Various
Money Market	200,724	1	Various	Various
	<u>\$ 1,053,218</u>			

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool ("TexPool"). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. These investments are stated at fair value which is the same as the value of the pool shares. TexPool also has an advisory board to advise on TexPool's investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool's investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.



**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)**

**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, 2014, the District did not own any investments in individual securities.

**Custodial Credit Risk** - 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, 2014, the District's bank deposits were fully covered by FDIC insurance.

**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 Hays Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Hays County Tax Collector bills and collects the District's property taxes. The Board set current tax rates on September 10, 2013.

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 2013 tax roll. The tax rate, based on the total taxable assessed valuation of \$104,060,950, was \$0.85 on each \$100 valuation and was allocated \$0.5126 to the General Fund and \$0.3374 to the Debt Service Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on November 10, 2003.

Property taxes receivable at September 30, 2014 consisted of the following:

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
Current year levy	\$ 731	\$ 481	\$ 1,212
Prior years' levies	-	-	-
	<u>\$ 731</u>	<u>\$ 481</u>	<u>\$ 1,212</u>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**5. INTERFUND ACCOUNTS**

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds, is as follows at September 30, 2014:

	Interfund	
	Receivables	Payables
<b>General Fund:</b>		
Debt Service Fund	\$ 2,315	\$ -
Capital Projects Fund	50,477	-
<b>Debt Service Fund-</b>		
General Fund	-	2,315
<b>Capital Projects Fund-</b>		
General Fund	-	50,477
	<u>\$ 52,792</u>	<u>\$ 52,792</u>

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 9/30/2013	Additions	Deletions	Balance 9/30/2014
Capital assets being depreciated-				
Water/drainage system	\$ 6,523,779	-	-	\$ 6,523,779
Total capital assets being depreciated	<u>6,523,779</u>	<u>-</u>	<u>-</u>	<u>6,523,779</u>
Less accumulated depreciation for-				
Water/drainage system	(338,521)	(130,475)	-	(468,996)
Total accumulated depreciation	<u>(338,521)</u>	<u>(130,475)</u>	<u>-</u>	<u>(468,996)</u>
Total capital assets being depreciated, net of accumulated depreciation	<u>6,185,258</u>	<u>(130,475)</u>	<u>-</u>	<u>6,054,783</u>
Total capital assets, net	<u>\$ 6,185,258</u>	<u>(130,475)</u>	<u>-</u>	<u>\$ 6,054,783</u>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**7. DEFERRED OUTFLOWS OF RESOURCES**

The following is a summary of changes in deferred outflows of resources for the year ended September 30, 2014:

Deferred charges on bond refundings - September 30, 2013	\$ 328,898
Retirements from Series 2013 refundings	<u>(249,236)</u>
Deferred charges on bond refundings - September 30, 2014	<u><u>\$ 79,662</u></u>

**8. BONDED DEBT**

The following is a summary of the District's bond transactions for the year ended September 30, 2014:

	Tax and Revenue Bonds
Bonds payable at September 30, 2013	<u>\$ 7,575,000</u>
Bonds retired	(305,000)
Bond discount, net of accumulated amortization	<u>(23,122)</u>
Bonds payable at September 30, 2014	<u><u>\$ 7,246,878</u></u>

Bonds payable at September 30, 2014 were comprised of the following individual issues:

**Unlimited Tax Bonds -**

\$2,600,000 - 2009 Unlimited Tax Bonds payable serially through the year 2028 at interest rates which range from 4.75% to 6.05%. Bonds maturing on or after September 1, 2015 are callable prior to maturity beginning on September 1, 2014. Bonds maturing September 1, 2022, 2025 and 2028 are term bonds and are subject to mandatory sinking fund redemption.

\$3,500,000 - 2011 Unlimited Tax Bonds payable serially through the year 2030 at interest rates which range from 3.50% to 5.125%. Bonds maturing on or after September 1, 2016 are callable prior to maturity beginning on September 1, 2015. Bonds maturing September 1, 2030 are term bonds and are subject to mandatory sinking fund redemption.

\$1,500,000 - 2012 Unlimited Tax Bonds payable serially through the year 2032 at interest rates which range from 2.00% to 3.65%. Bonds maturing on or after September 1, 2020 are callable prior to maturity beginning on September 1, 2019. Bonds maturing September 1, 2032 are term bonds and are subject to mandatory sinking fund redemption.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**8. BONDED DEBT (continued)**

**Unlimited Tax Refunding Bonds -**

\$4,565,000 - 2013 Unlimited Tax Refunding Bonds payable serially through the year 2030 at interest rates which range from 2.00% to 3.80%. Bonds maturing on or after September 1, 2020 are callable prior to maturity beginning on September 1, 2019. Bonds maturing September 1, 2030 are term bonds and are subject to mandatory sinking fund redemption.

The annual requirements to amortize all bonded debt at September 30, 2014, including interest, are as follows:

<b>Year Ended September 30,</b>	<b>Annual Requirements for All Series</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 325,000	\$ 247,791	\$ 572,791
2016	335,000	236,741	571,741
2017	360,000	228,166	588,166
2018	370,000	218,536	588,536
2019	390,000	207,811	597,811
2020-2024	2,260,000	825,706	3,085,706
2025-2029	2,605,000	387,820	2,992,820
2030-2032	625,000	36,023	661,023
	<u>\$ 7,270,000</u>	<u>\$ 2,388,594</u>	<u>\$ 9,658,594</u>

The total amount of bonds authorized but not issued is \$40,300,000 as of September 30, 2014.

\$228,412 is available in the Debt Service Fund to service the bonded debt as of September 30, 2014.

The existing bonds 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.

In fiscal year 2013, the District defeased certain outstanding general obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all the future debt service payments on the old bonds. Accordingly, the trust account assets and the defeased bonds are not included in the District's financial statements. At September 30, 2014, outstanding bonds of \$1,760,000 are considered defeased.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**9. COMMITMENTS AND CONTINGENCIES**

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, 2014, has recorded no liability pertaining to such costs.

**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**

The District complies with 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.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2014**

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**11. FUND BALANCES (continued)**

- 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.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

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.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**YEAR ENDED SEPTEMBER 30, 2014**

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	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Property taxes, including penalties	\$ 534,468	\$ 531,720	\$ 2,748
Interest	2,686	300	2,386
Other	539	-	539
<b>TOTAL REVENUES</b>	<u>537,693</u>	<u>532,020</u>	<u>5,673</u>
<b>EXPENDITURES:</b>			
Director fees, including payroll taxes	5,006	10,384	5,378
Legal fees	23,676	38,000	14,324
Engineering fees	17,918	24,000	6,082
Bookkeeping fees	15,450	16,450	1,000
Audit fees	11,500	11,500	-
Tax appraisal/collection fees	5,001	3,000	(2,001)
Other consulting fees	781	1,000	219
Insurance	1,369	1,000	(369)
Other	1,732	11,800	10,068
<b>TOTAL EXPENDITURES</b>	<u>82,433</u>	<u>117,134</u>	<u>34,701</u>
<b>NET CHANGE IN FUND BALANCE</b>	455,260	<u><u>\$ 414,886</u></u>	<u><u>\$ 40,374</u></u>
<b>FUND BALANCE:</b>			
Beginning of the year	<u>420,882</u>		
End of the year	<u><u>\$ 876,142</u></u>		



**TEXAS**  
**SUPPLEMENTAL INFORMATION**

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-1. SERVICES AND RATES**  
**SEPTEMBER 30, 2014**

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**1. Services Provided by the District during the Fiscal Year: (1)**

<input type="checkbox"/> Retail Water	<input type="checkbox"/> Wholesale Water	<input checked="" type="checkbox"/> Drainage
<input type="checkbox"/> Retail Wastewater	<input type="checkbox"/> Wholesale Wastewater	<input type="checkbox"/> Irrigation
<input type="checkbox"/> Parks/Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Security
<input type="checkbox"/> Solid Waste/Garbage	<input type="checkbox"/> Flood Control	<input type="checkbox"/> Roads
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)		
<input type="checkbox"/> Other (specify): _____		

**2. Retail Service Providers**

**a. Retail Rates Based on 5/8" Meter (or equivalent):**

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1000 Gallons Over Minimum	Usage Levels
WATER:	(1)	(1)	(1)	(1)	(1)
WASTEWATER:	(1)	(1)	(1)	(1)	(1)
SURCHARGE:	(1)	(1)	(1)	(1)	(1)

District employs winter averaging for wastewater usage? Yes ☐ No ☒

Total charges per 10,000 gallons usage: Water (1) Wastewater (1)

**b. Water and Wastewater Retail Connections:**

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered			1.0	
< 3/4"			1.0	
1"			2.5	
1 1/2"			5.0	
2"			8.0	
3"			16.0	
4" compound			25.0	
4" turbine			50.0	
6" compound			50.0	
6" turbine			100.0	
Total Water	(1)	(1)		(1)
Total Wastewater	(1)	(1)	1.0	(1)

(1) Note: The District is served by the West Travis County Public Utility Agency.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-1. SERVICES AND RATES**  
**SEPTEMBER 30, 2014**

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

Gallons pumped into system: \_\_\_\_\_ (1)

Gallons billed to customers: \_\_\_\_\_ (1)

**Water Accountability Ratio**

(Gallons billed / Gallons Pumped)

**n/a**

**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: \_\_\_\_\_ Hays 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: \_\_\_\_\_ Dripping Springs

Are Board members appointed by an office outside the district?

Yes ☐ No ☒

If Yes, by whom? \_\_\_\_\_

(1) Note: The District is served by the West Travis County Public Utility Agency.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-2. GENERAL FUND EXPENDITURES**  
**SEPTEMBER 30, 2014**

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Personnel Expenditures (including benefits)	\$ -
Professional Fees:	
Auditing	11,500
Legal	23,676
Engineering	17,918
Financial Advisor	-
Purchased Services for Resale-	
Bulk Water and Wastewater Purchases	-
Contracted Services:	
Bookkeeping	15,450
General Manager	-
Appraisal District	5,001
Tax Collector	-
Other Contracted Services	781
Utilities	-
Repairs and Maintenance	-
Administrative Expenditures:	
Directors' Fees	5,006
Office Supplies	-
Insurance	1,369
Other Administrative Expenditures	1,732
Capital Outlay:	
Capitalized Assets	-
Expenditures not Capitalized	-
Tap Connection Expenditures	-
Solid Waste Disposal	-
Fire Fighting	-
Parks and Recreation	-
Other Expenditures	-
TOTAL EXPENDITURES	<u>\$ 82,433</u>

Number of persons employed by the District:

-

Full-Time

5

Part-Time

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-3. TEMPORARY INVESTMENTS**  
**SEPTEMBER 30, 2014**

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<b>Funds</b>	<b>Identification or Certificate Number</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Balance at End of Year</b>	<b>Accrued Interest Receivable at End of Year</b>
<b>General Fund:</b>					
TexPool	XXX001	Varies	Daily	\$ 105,820	\$ -
Certificate of Deposit	XXX198	0.30%	2/6/2015	240,000	101
Certificate of Deposit	XXX979	0.75%	2/11/2015	245,000	254
Certificate of Deposit	XXX408	0.30%	4/6/2015	200,000	331
Total				<u>790,820</u>	<u>686</u>
<b>Debt Service Fund:</b>					
TexPool	XXX003	Varies	Daily	1,661	-
TexPool	XXX005	Varies	Daily	28,342	-
Money Market Account	XXX224	Varies	Daily	200,724	-
Total				<u>230,727</u>	<u>-</u>
<b>Capital Projects Fund-</b>					
TexPool	XXX007	Varies	Daily	31,671	-
Total				<u>31,671</u>	<u>-</u>
Total - All Funds				<u>\$ 1,053,218</u>	<u>\$ 686</u>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-4. TAXES LEVIED AND RECEIVABLE**  
**SEPTEMBER 30, 2014**

			Maintenance Taxes	Debt Service Taxes
Taxes Receivable, Beginning of Year			\$ 312	\$ 649
2013 Original Tax Levy and adjustments			531,683	349,960
Adjustments			1,554	768
Total to be accounted for			533,549	351,377
Tax collections:				
Current year			532,685	350,620
Prior years			133	276
Total collections			532,818	350,896
Taxes Receivable, End of Year			\$ 731	\$ 481
Taxes Receivable, By Years:				
2012 and before			\$ -	\$ -
2013			731	481
Taxes Receivable, End of Year			\$ 731	\$ 481
	2013	2012	2011	2010
Property Valuations-				
Land and improvements	\$ 104,060,950 (a)	\$ 88,469,035 (a)	\$ 80,505,286 (a)	\$ 74,355,442 (a)
Total Property Valuations	\$ 104,060,950	\$ 88,469,035	\$ 80,505,286	\$ 74,355,442
Tax Rates per \$100 Valuation:				
Debt Service tax rates	\$ 0.3374	\$ 0.5741	\$ 0.6309	\$ 0.2926
Maintenance tax rates	0.5126	0.2759	0.2191	0.5574
Total Tax Rates per \$100 Valuation	\$ 0.8500	\$ 0.8500	\$ 0.8500	\$ 0.8500
Tax Levy	\$ 881,643	\$ 751,987	\$ 684,295	\$ 632,021
Percent of Taxes Collected to Taxes Levied **	99.9%	100.0%	100.0%	100.0%

**Maximum Tax Rate Approved by Voters: \$ 1.00 on 11/10/2003**

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

(a) Valuations are provided by the appropriate Appraisal District as of October 27, 2014. Due to various factors including tax protests and disputes, such valuations change over time; therefore, they may vary slightly from those disclosed in the District's bond offering documents or the District's annual bond disclosure filings.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS**  
**SEPTEMBER 30, 2014**

Fiscal Year Ending	Unlimited Tax Bonds Series 2009			Unlimited Tax Bonds Series 2011			Unlimited Tax Bonds Series 2012			Unlimited Tax Refunding Bonds Series 2013			Total		
	Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due		Principal Due	Interest Due	
	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total	9/01	3/01, 9/01	Total
2015	\$ 100,000	\$ 4,750	\$ 104,750	\$ 120,000	\$ 58,515	\$ 178,515	\$ 50,000	\$ 41,503	\$ 91,503	\$ 55,000	\$ 143,023	\$ 198,023	\$ 325,000	\$ 247,791	\$ 572,791
2016	-	-	-	125,000	54,315	179,315	50,000	40,503	90,503	160,000	141,923	301,923	335,000	236,741	571,741
2017	-	-	-	135,000	49,940	184,940	55,000	39,503	94,503	170,000	138,723	308,723	360,000	228,166	588,166
2018	-	-	-	140,000	44,810	184,810	55,000	38,403	93,403	175,000	135,323	310,323	370,000	218,536	588,536
2019	-	-	-	150,000	39,210	189,210	60,000	37,303	97,303	180,000	131,298	311,298	390,000	207,811	597,811
2020	-	-	-	160,000	32,910	192,910	65,000	35,983	100,983	185,000	126,708	311,708	410,000	195,601	605,601
2021	-	-	-	170,000	25,870	195,870	65,000	34,455	99,455	190,000	121,528	311,528	425,000	181,853	606,853
2022	-	-	-	185,000	18,050	203,050	70,000	32,830	102,830	200,000	115,828	315,828	455,000	166,708	621,708
2023	-	-	-	195,000	9,263	204,263	75,000	30,975	105,975	205,000	109,528	314,528	475,000	149,766	624,766
2024	-	-	-	-	-	-	80,000	28,913	108,913	415,000	102,865	517,865	495,000	131,778	626,778
2025	-	-	-	-	-	-	80,000	26,593	106,593	440,000	88,755	528,755	520,000	115,348	635,348
2026	-	-	-	-	-	-	85,000	24,193	109,193	460,000	73,355	533,355	545,000	97,548	642,548
2027	-	-	-	-	-	-	90,000	21,643	111,643	480,000	57,255	537,255	570,000	78,898	648,898
2028	-	-	-	-	-	-	95,000	18,763	113,763	495,000	39,975	534,975	590,000	58,738	648,738
2029	-	-	-	-	-	-	100,000	15,628	115,628	280,000	21,660	301,660	380,000	37,288	417,288
2030	-	-	-	-	-	-	105,000	12,228	117,228	290,000	11,020	301,020	395,000	23,248	418,248
2031	-	-	-	-	-	-	110,000	8,395	118,395	-	-	-	110,000	8,395	118,395
2032	-	-	-	-	-	-	120,000	4,380	124,380	-	-	-	120,000	4,380	124,380
	<u>\$ 100,000</u>	<u>\$ 4,750</u>	<u>\$ 104,750</u>	<u>\$ 1,380,000</u>	<u>\$ 332,883</u>	<u>\$ 1,712,883</u>	<u>\$ 1,410,000</u>	<u>\$ 492,194</u>	<u>\$ 1,902,194</u>	<u>\$ 4,380,000</u>	<u>\$ 1,558,767</u>	<u>\$ 5,938,767</u>	<u>\$ 7,270,000</u>	<u>\$ 2,388,594</u>	<u>\$ 9,658,594</u>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-6. CHANGES IN LONG-TERM BONDED DEBT**  
**SEPTEMBER 30, 2014**

	<u>Bond Issue</u> <u>Series 2009</u>	<u>Bond Issue</u> <u>Series 2011</u>	<u>Bond Issue</u> <u>Series 2012</u>	<u>Bond Issue</u> <u>Series 2013</u>	<u>Total</u>
Interest Rate	4.75% - 6.05%	3.50% - 5.125%	2.00% - 3.65%	2.00% - 3.80%	
Dates Interest Payable	3/1; 9/1	3/1; 9/1	3/1; 9/1	3/1; 9/1	
Maturity Dates	9/1/2028	9/1/2030	9/1/2032	9/1/2030	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 195,000	\$ 1,490,000	\$ 1,455,000	\$ 4,435,000	\$ 7,575,000
Bonds Sold During the Current Fiscal Year	-	-	-	-	-
Retirements During the Current Fiscal Year- Refunded	-	-	-	-	-
Principal	(95,000)	(110,000)	(45,000)	(55,000)	(305,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 100,000</u>	<u>\$ 1,380,000</u>	<u>\$ 1,410,000</u>	<u>\$ 4,380,000</u>	<u>\$ 7,270,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 9,263</u>	<u>\$ 62,365</u>	<u>\$ 42,403</u>	<u>\$ 144,122</u>	<u>\$ 258,153</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>	
Bond Authority:	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>		
Amount Authorized by Voters	\$ 47,900,000	\$ -	\$ -		
Amount Issued	(7,600,000)	-	(4,565,000)	**	
Remaining To Be Issued	<u>\$ 40,300,000</u>	<u>\$ -</u>	<u>\$ 4,565,000</u>		
* Includes all bonds secured with tax revenues. Bonds in this category may also be secured with other revenues in combination with taxes.					
** Refunding bonds are not required to be authorized by voters.					
Debt Service Fund Cash and Temporary Investments balances as of September 30, 2014:	<u>\$ 230,727</u>				
Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt:	<u>\$ 536,589</u>				



**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS**  
**SEPTEMBER 30, 2014**

	Amounts					Percentage of Fund Total Revenues				
	2014	2013	2012	2011	2010	2014	2013	2012	2011	2010
<b>GENERAL FUND REVENUES:</b>										
Property taxes, including penalties	\$ 534,468	\$ 245,592	\$ 176,845	\$ 418,733	\$ 400,469	99.4%	99.7%	99.7%	99.6%	99.1%
Interest	2,686	382	556	1,470	3,564	0.5%	0.2%	0.3%	0.4%	0.9%
Other	539	299	-	114	60	0.1%	0.1%	-	-	-
<b>TOTAL GENERAL FUND REVENUES</b>	<b>537,693</b>	<b>246,273</b>	<b>177,401</b>	<b>420,317</b>	<b>404,093</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>GENERAL FUND EXPENDITURES:</b>										
Director fees, including payroll taxes	5,006	6,643	9,181	5,490	7,912	0.9%	2.7%	5.3%	1.3%	2.0%
Legal fees	23,676	26,236	30,528	29,195	39,041	4.4%	10.7%	17.2%	6.9%	9.7%
Engineering fees	17,918	20,526	19,816	22,787	32,731	3.3%	8.3%	11.2%	5.4%	8.1%
Bookkeeping fees	15,450	16,150	16,500	16,500	17,200	2.9%	6.5%	9.3%	3.9%	4.3%
Audit fees	11,500	11,500	11,000	9,500	12,000	2.1%	4.7%	6.2%	2.3%	3.0%
Insurance	1,369	1,029	583	721	584	0.3%	0.4%	0.3%	0.2%	0.1%
Tax appraisal/collection fees	5,001	2,384	1,766	4,221	4,079	0.9%	1.0%	1.0%	1.0%	1.0%
Other consulting fees	781	420	334	846	1,018	0.2%	0.2%	0.2%	0.2%	0.3%
Other	1,732	1,116	993	7,390	3,469	0.3%	0.4%	0.6%	1.8%	0.9%
Bond issue costs	-	-	-	-	51,891	-	-	-	-	12.8%
Interfund transfer	-	-	3,051	-	-	-	-	1.7%	-	-
Capital outlay	-	-	377,908	-	481,554	-	-	213.0%	-	119.2%
<b>TOTAL GENERAL FUND EXPENDITURES</b>	<b>82,433</b>	<b>86,004</b>	<b>471,660</b>	<b>96,650</b>	<b>651,479</b>	<b>15.3%</b>	<b>34.9%</b>	<b>265.9%</b>	<b>23.0%</b>	<b>161.1%</b>
<b>EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$ 455,260</b>	<b>\$ 160,269</b>	<b>\$(294,259)</b>	<b>\$ 323,667</b>	<b>\$(247,386)</b>	<b>84.7%</b>	<b>65.1%</b>	<b>-165.9%</b>	<b>77.0%</b>	<b>-61.1%</b>
<b>DEBT SERVICE FUND REVENUES:</b>										
Property taxes, including penalties	\$ 352,052	\$ 511,754	\$ 509,088	\$ 219,929	\$ 236,831	99.5%	62.0%	99.6%	98.8%	99.7%
Interest	1,931	1,541	1,822	2,584	831	0.5%	0.2%	0.4%	1.2%	0.3%
Proceeds from refunding, net	-	311,583	-	-	-	-	37.8%	-	-	-
<b>TOTAL DEBT SERVICE FUND REVENUES</b>	<b>353,983</b>	<b>824,878</b>	<b>510,910</b>	<b>222,513</b>	<b>237,662</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>DEBT SERVICE FUND EXPENDITURES:</b>										
Tax appraisal/collection fees	3,292	4,961	5,085	2,216	2,412	0.9%	0.6%	1.0%	1.0%	1.0%
Financial advisor fees	515	875	963	444	608	0.1%	0.1%	0.2%	0.2%	0.3%
Fiscal agent fees and other	3,100	3,000	600	-	-	0.9%	0.3%	0.1%	-	-
Bond principal	305,000	370,000	180,000	130,000	75,000	86.2%	44.9%	35.2%	58.4%	31.6%
Bond interest	258,153	189,619	299,391	194,086	143,595	72.9%	23.0%	58.6%	87.2%	60.4%
Bond issuance fees	-	202,631	-	-	400	0.0%	24.6%	-	-	0.2%
<b>TOTAL DEBT SERVICE FUND EXPENDITURES</b>	<b>570,060</b>	<b>771,086</b>	<b>486,039</b>	<b>326,746</b>	<b>222,015</b>	<b>161.1%</b>	<b>93.5%</b>	<b>95.1%</b>	<b>146.8%</b>	<b>93.5%</b>
<b>EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES OVER (UNDER) EXPENDITURES</b>	<b>\$(216,077)</b>	<b>\$ 53,792</b>	<b>\$ 24,871</b>	<b>\$(104,233)</b>	<b>\$ 15,647</b>	<b>-61.1%</b>	<b>6.5%</b>	<b>4.9%</b>	<b>-46.8%</b>	<b>6.5%</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>	<b>(1)</b>					

(1) Note: The District is served by the West Travis County Public Utility Agency.

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**SEPTEMBER 30, 2014**

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<b>Complete District Mailing Address:</b>	<u>100 Congress Ave., Ste. 1300</u>
	<u>Austin, TX 78701</u>
<b>District Business Telephone Number:</b>	<u>(512) 435-2300</u>
<b>Submission Date of the most recent District Registration Form TWC Sections 36.054 &amp; 49.054):</b>	<u>April 8, 2014</u>
<b>Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)</b>	<u>\$7,200</u>

<b>Name and Address:</b>	<b>Term of Office (Elected or Appointed) or Date Hired</b>	<b>Fees of Office Paid *</b> <b>9/30/2014</b>	<b>Expense Reimbursements</b> <b>9/30/2014</b>	<b>Title at Year End</b>
<b>Board Members:</b>				
<b>James A. Huffcut, Jr.</b>	(Elected) 11/6/2012 - 11/8/2016	\$ 1,050	\$ -	President
<b>Scott Roberts</b>	(Elected) 11/6/2012 - 11/8/2016	\$ 300	\$ -	Vice-President
<b>Joan Moeller</b>	(Elected) 11/4/2014 - 11/6/2018	\$ -	\$ -	Secretary
<b>David Saxon</b>	(Elected) 11/4/2014 - 11/6/2018	\$ 1,650	\$ -	Treasurer
<b>Michael A. Schroeder</b>	(Elected) 11/6/2012 - 11/8/2016	\$ 750	\$ -	Assistant Secretary
<b>Former Board Member:</b>				
<b>Dan Raley</b>	(Elected) 5/8/2010 - 11/4/2014	\$ 900	\$ -	Secretary
<b>Consultants:</b>				
<b>Armbrust &amp; Brown, PLLC</b>	3/7/2002	\$ 24,454	\$ -	Attorney
<b>Murfee Engineering Co., Inc.</b>	3/7/2002	\$ 54,430	\$ -	Engineer
<b>Bott &amp; Douthitt, PLLC</b>	7/1/2009	\$ 15,450	\$ 88	District Accountant
<b>Maxwell Locke &amp; Ritter LLP</b>	10/28/2008	\$ 11,500	\$ -	Auditor
<b>Public Finance Group LLC</b>	4/8/2014	\$ -	\$ -	Financial Advisor
<b>McCall, Parkhurst &amp; Horton, L.L.P.</b>	3/7/2002	\$ -	\$ -	Bond Counsel
<b>Hays County Tax Collector</b>	2005	\$ 82	\$ -	Tax Collector

\* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

**OTHER  
SUPPLEMENTAL INFORMATION**

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**OSI-1. PRINCIPAL TAXPAYERS**  
**SEPTEMBER 30, 2014**

Taxpayer	Type of Property	Tax Roll Year		
		2014	2013	2012
LSM Ranch Ltd.	N/A	\$ 4,844,374	\$ 9,070,386	\$ 11,777,826
Century Land Holdings LLC	N/A	1,145,840	-	-
Rutherford RH LP	N/A	1,082,640	1,082,640	-
Scott Felder Homes LLC	N/A	827,960	801,220	751,040
Scott Felder Homes LLC	N/A	824,470	-	577,240
The Brohn Group LLC	N/A	755,120	-	-
Homeowner	N/A	689,470	593,630	593,630
Lennar Homes of Texas Land & Const Ltd.	N/A	688,900	657,830	1,161,590
Homeowner	N/A	643,530	568,150	568,150
Homeowner	N/A	641,200	559,920	566,660
Gehan Homes Ltd.	N/A	-	1,215,760	1,007,810
Homeowner	N/A	-	538,090	-
Homeowner	N/A	-	533,380	-
Wilson Family Communities Inc.	N/A	-	-	1,672,680
Mercedes Homes of Texas Ltd.	N/A	-	-	601,910
<b>Total</b>		<b>\$ 12,143,504</b>	<b>\$ 15,621,006</b>	<b>\$ 19,278,536</b>
Percent of Assessed Valuation		<b>9.0%</b>	<b>15.0%</b>	<b>21.8%</b>

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2**  
**OSI-2. ASSESSED VALUE BY CLASSIFICATION**  
**SEPTEMBER 30, 2014**

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Type of Property	Tax Roll Year					
	2014		2013		2012	
	Amount	%	Amount	%	Amount	%
Single Family Residence	<b>\$ 120,248,050</b>	<b>88.9%</b>	\$ 85,437,620	82.1%	\$ 66,765,590	75.5%
Real, Vacant Platted Lots	<b>6,862,949</b>	<b>5.1%</b>	5,278,211	5.1%	6,312,721	7.1%
Real, Acreage	<b>6,172,740</b>	<b>4.6%</b>	8,126,390	7.8%	8,489,820	9.6%
Farm and Ranch Improvements	<b>1,959,450</b>	<b>1.4%</b>	5,800	-	5,800	-
Tangible Personal, Business	<b>279,042</b>	<b>0.2%</b>	234,759	0.2%	126,506	0.1%
Real, Inventory	<b>8,274,030</b>	<b>6.1%</b>	12,652,570	12.2%	13,999,250	15.8%
Totally Exempt Property	<b>364,930</b>	<b>0.3%</b>	363,670	0.3%	363,580	0.4%
Less: Adjustments	<b>(8,966,620)</b>	<b>-6.6%</b>	(8,038,070)	-7.7%	(7,594,232)	-8.5%
Net Taxable	<b><u>\$ 135,194,571</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 104,060,950</u></b>	<b><u>100.0%</u></b>	<b><u>\$ 88,469,035</u></b>	<b><u>100.0%</u></b>

**APPENDIX B**  
**Form of Bond Counsel Opinion**

LAW OFFICES

**McCALL, PARKHURST & HORTON L.L.P.**

717 NORTH HARWOOD  
SUITE 900  
DALLAS, TEXAS 75201-6587  
TELEPHONE: 214 754-9200  
FACSIMILE: 214 754-9250

600 CONGRESS AVENUE  
SUITE 1800  
AUSTIN, TEXAS 78701-3248  
TELEPHONE: 512 478-3805  
FACSIMILE: 512 472-0871

700 N. ST. MARY'S STREET  
SUITE 1525  
SAN ANTONIO, TEXAS 78205-3503  
TELEPHONE: 210 225-2800  
FACSIMILE: 210 225-2984

*[An opinion in substantially the following form will be delivered by McCall,  
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the  
Bonds, assuming no material changes in facts or law.]*

**GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2  
UNLIMITED TAX BONDS, SERIES 2015  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,180,000**

**AS BOND COUNSEL FOR GREENHAWE WATER CONTROL AND IMPROVEMENT DISTRICT NO. 2** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on April 22, 2015 authorizing the issuance of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, including the Order and other documents authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the District upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Numbered T-1) and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that said Bonds have been duly authorized, issued and delivered in accordance with law; and that said Bonds, except as the enforceability thereof may be limited by laws relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to creditors' rights generally or by general principle of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes without legal limit as to rate or amount to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient (together with revenues and receipts from other sources which are legally available for such purposes) to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District.

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

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

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

**OUR OPINIONS ARE BASED** on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Bonds, is includable in a corporation's alternative minimum taxable



income for purposes of determining the alternative minimum tax imposed on corporations under section 55 of the Code.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the District, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of and the assessed valuation of taxable property within the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

**APPENDIX C**  
**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.  
31 West 52nd Street, New York, N.Y. 10019  
(212) 974-0100