

OFFICIAL STATEMENT DATED MARCH 2, 2010

NEW ISSUE -BOOK-ENTRY - ONLY

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

\$1,775,000

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX BONDS, SERIES 2010**

Dated: March 1, 2010

Due: September 1, as shown below

Interest on the Bonds will accrue from March 1, 2010 and is payable September 1, 2010 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 New York, New York, ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry 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 Wells Fargo Bank, N.A. ("the Paying Agent"). The Bonds are obligations solely of the District and are not obligations of the City of Round Rock, Texas; Williamson County, Texas; the State of Texas; or any entity other than the District.

**MATURITIES
(Due September 1)**

Due	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Number (c)	Due	Principal Amount	Interest Rate (a)	Initial Reoffering Yield (b)	CUSIP Number (c)
2012	\$ 25,000	3.750%	3.000%	69750TAA1	2018*	\$ 50,000	4.400%	4.400%	69750TAG8
2013	25,000	3.750%	3.250%	69750TAB9	2019*	50,000	4.600%	4.600%	69750TAH6
2014	25,000	3.750%	3.500%	69750TAC7	2020*	50,000	4.750%	4.750%	69750TAJ2
2015*	50,000	3.750%	3.750%	69750TAD5	2021*	50,000	4.900%	4.900%	69750TAK9
2016*	50,000	4.000%	4.000%	69750TAE3	2022*	75,000	5.000%	5.000%	69750TAL7
2017*	50,000	4.200%	4.200%	69750TAF0	2023*	75,000	5.125%	5.125%	69750TAM5
						\$ 225,000	5.250%	Term Bond Due September 1, 2026* Yield 5.250% CUSIP # 69750TAQ6	
						\$ 225,000	5.375%	Term Bond Due September 1, 2029* Yield 5.375% CUSIP # 69750TAT0	
						\$ 750,000	5.500%	Term Bond Due September 1, 2036* Yield 5.625% CUSIP # 69750TBA0	

* 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, 2015 in whole or from time to time in part, on September 1, 2014, 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, 2026, September 1, 2029 and September 1, 2036 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 5.484798%.
- (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 (as herein defined). The yields may be changed at any time at the discretion of the Initial Purchaser. Accrued interest from March 1, 2010 to the date of delivery of the Bonds to the Initial Purchaser is to be added to the price.
- (c) CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of purchasers of the Bonds. Neither the District nor the Financial Advisor shall be responsible for the selection or correctness of the CUSIP number shown herein.

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 taxable property within the District. See "THE BONDS - Source of and Security for Payment." THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS" herein.

The Bonds are offered by 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 March 18, 2010 in Austin, Texas.

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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, and 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 MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of The GMS Group, L.L.C. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the 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 OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of utility district bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, 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 Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided hereunder. 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 AND INSURANCE

No application has been made to a rating service or municipal bond insurance company, nor is it expected that the District would have been successful in obtaining an investment grade rating or bond insurance commitment had such applications been made.

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OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

- The Issuer Paloma Lake Municipal Utility District No. 2 (the “District”), a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), dated August 10, 2006 and confirmed pursuant to an election held within the District on May 12, 2007. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and providing and operating park and recreational facilities, and operates pursuant to Chapters 49 and 54 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, which encompasses approximately 340 acres of land, is located in northeast Williamson County and lies approximately six miles northeast of downtown of the City of Round Rock, Texas (“Round Rock”), five miles southeast of the City of Georgetown, Texas (“Georgetown”), five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock and is bounded on the south by CR 122, on the north by CR 112 and on the east by CR 110. See “THE DISTRICT - Location.”
- The Developers The developers currently active within the District are Paloma Lake Development, Inc. (“Paloma Lake Development”), a Texas corporation, of which Blake Magee is the president, and Standard Pacific of Texas L.P. (“Standard Pacific”), a Delaware limited partnership whose general partner is Standard Pacific of Texas, Inc., a Delaware corporation, of which William Peckman is division president (collectively, the “Developers”.) See “THE DEVELOPERS - Description of Developers” and “THE DISTRICT - Current Status of Development.”
- Major Landowner..... A major landowner in the District is Carol C. Nelson (the “Major Landowner”). The Major Landowner is the original land owner and has retained ownership of approximately 155.25 acres in the District, of which 132.10 acres are developable and 23.15 acres are undevelopable. The Major Landowner is not presently marketing its acreage for sale. See “THE MAJOR LANDOWNER- Description of Major Landowner” and “THE DISTRICT – Current Status of Development.”
- Development within the District..... Of the 339.92 acres within the District, approximately 223 are developable under current land development and water quality regulations. As of January 15, 2010, approximately 55 acres (or 24.66% of the developable acreage within the District) have been developed or are currently being developed with utility facilities as the single family residential subdivisions of Paloma Lake Section 17A (16.18 acres; platted as 59 single family lots), Section 17B (10.32 acres; platted as 43 single family lots), Section 18 (18.62 acres; platted as 77 single family lots) and Section 19A (9.96 acres; expected to be platted as 44 lots). As of January 15, 2010, the development in the District consisted of 136 single family lots, which include 87 completed homes (of which 73 are completed and occupied and 14 are completed and unoccupied), 14 homes under construction, and 35 vacant single family lots. See "THE DISTRICT – Current Status of Development."
- Homebuilders According to the Developers, there is currently one homebuilder active within the District: Standard Pacific Homes (“Standard Pacific Homes”), building homes in two lot sizes (53” and 60”). The homes range in price from \$160,000 to \$300,000, with square footage ranging from 1,500 to 3,200. See “THE DEVELOPERS – Homebuilders within the District.”

THE BONDS

Description	The Bonds in the aggregate principal amount of \$1,775,000 mature serially in varying amounts on September 1 of each year from 2012 through 2023 inclusive, and as Term Bonds which mature September 1, 2026, September 1, 2029 and September 1, 2036 in the principal amounts set forth on the cover page hereof. Interest accrues from March 1, 2010 at the rates per annum set forth on the cover page hereof and is payable September 1, 2010 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	Bonds maturing on September 1 of the years 2015 through 2023 inclusive, and 2026, 2029 and 2036, are subject to redemption in whole or from time to time in part at the option of the District on September 1, 2014, or any date thereafter, in integral multiples of \$5,000 at par plus accrued interest from the most recent interest payment date to the date of redemption. The Bonds maturing September 1, 2026, September 1, 2029 and September 1, 2036 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 Round Rock; Williamson 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 Bonds constitute the initial installment of bonds issued by the District. Therefore, the District has no payment history with respect to the repayment of bonded indebtedness. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized but Unissued."
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 54 of the Texas Water Code, as amended; a bond election held within the District on May 12, 2007; the approving order of the TCEQ; and an 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 District’s share of the following projects: (i) capacity in the McNutt wastewater interceptor line A; and (ii) creation and operating costs. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and 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 May 12, 2007, the voters within the District approved the issuance of \$31,120,000 in bonds for water, wastewater and drainage facilities. After the sale of the Bonds, the District will have \$29,345,000 remaining in authorized but unissued utility bonds. Additionally, at the election held in the District on May 12, 2007, the voters within the District also approved the issuance of \$7,040,000 in bonds for the acquisition and construction of parks and recreational facilities, all of which remain authorized but unissued. See "FINANCIAL STATEMENT - Outstanding Bonds" and "THE BONDS – Issuance of Additional Debt."
Municipal Bond Rating and Insurance	In connection with the sale of the Bonds, the District has not applied for a rating or a municipal bond insurance commitment on the Bonds, nor is it expected that an investment grade rating or a municipal bond insurance commitment would have been received had applications been made.
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 2010 is not reasonably expected to exceed \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011). See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions."

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

General Counsel Armbrust & Brown, L.L.P., Austin, Texas

Financial Advisor Southwest Securities, Austin, Texas

Engineer..... Jones-Heroy & Associates, Inc., Austin, Texas

RISK FACTORS

The purchase and ownership of the Bonds involve certain risk factors and all prospective purchasers are urged to examine carefully the Official Statement, including particularly the section captioned "RISK FACTORS," with respect to investment in the Bonds.

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SELECTED FINANCIAL INFORMATION
(Unaudited as of March 1, 2010)

2009 Certified Assessed Valuation	\$17,463,929 ^(a)
Estimated Assessed Valuation as of January 15, 2010	\$24,500,000 ^(b)
Gross Debt Outstanding (after issuance of the Bonds)	
District Debt	\$ 1,775,000 ^(c)
Total.....	\$ 1,775,000
Ratio of Gross Debt to 2009 Certified Assessed Valuation.....	10.16%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 15, 2010	7.24%
2009 Tax Rate	
Debt Service	\$0.0000
Maintenance & Operation	<u>0.9500</u>
Total.....	<u>\$0.9500</u> ^(d)
Debt Service Fund Balance (after issuance of the Bonds).....	\$ 194,710 ^(e)
Percentage of current tax collections - Tax Year: 2007 - 2008.....	99.88%
Percentage of total tax collections - Tax Year: 2007 - 2008.....	99.90%
Average Annual Debt Service Requirement (2012-2036) of the Bonds ("Average Requirement")	\$130,525
Tax rate required to pay Average Requirement based upon 2009 Certified Assessed Valuation at 95% collections.....	\$0.79/\$100 A.V.
Tax rate required to pay Average Requirement based upon Estimated Assessed Valuation as of January 15, 2010 at 95% collections	\$0.57/\$100 A.V.
Maximum Annual Debt Service Requirement (2022) of the Bonds ("Maximum Requirement")	\$147,750
Tax rate required to pay Maximum Requirement based upon 2009 Certified Assessed Valuation at 95% collections.....	\$0.90/\$100 A.V.
Tax rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of January 15, 2010 at 95% collections	\$0.64/\$100 A.V.
Number of Active Connections as of January 15, 2010	
Single Family – Complete and Occupied.....	73
Single Family – Complete and Vacant (includes 4 model homes).....	14
Builder Connections / Irrigation / Other	<u>24</u>
Total.....	111
Estimated Population as of January 15, 2010	256 ^(f)

- (a) Assessed valuation of the District as of January 1, 2009, as certified by the Williamson Central Appraisal District ("WCAD"). See "TAXING PROCEDURES."
- (b) The Estimated Assessed Valuation as of January 15, 2010, as provided by WCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by WCAD. See "TAXING PROCEDURES."
- (c) The Bonds.
- (d) The District levied a 2009 total tax rate of \$0.95 at the District's Board meeting in September 2009. See "TAXING PROCEDURES."
- (e) Represents approximately twenty-four months of capitalized interest (\$194,710) which will be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas Law nor the Bond Order requires that the District maintain any particular sum in the District's Debt Service Fund.
- (f) Based upon 3.5 residents per completed and occupied single family home.

OFFICIAL STATEMENT
relating to
\$1,775,000
PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
(A Political Subdivision of the State of Texas Located in Williamson County, Texas)
UNLIMITED TAX BONDS, SERIES 2010

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Paloma Lake Municipal Utility District No. 2 (the "District"), a political subdivision of the State of Texas (the "State"), of its \$1,775,000 Unlimited Tax Bonds, Series 2010 (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 Article XVI, Section 59 of the Constitution and the general laws of the State, including Chapters 49 and 54 of the Texas Water Code, as amended; a bond election held within the District on May 12, 2007; and the approving order of the Texas Commission on Environmental Quality (the "TCEQ" or the "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, L.L.P., 100 Congress Avenue, Suite 1300, Austin, Texas, 78701 or from the District's Financial Advisor, Southwest Securities, 701 Brazos, Suite 400, Austin, Texas, 78701, upon payment of reasonable copying, mailing and handling charges.

THE BONDS

General Description

The Bonds will bear interest from March 1, 2010 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 cover page hereof. Interest on the Bonds will be paid on September 1, 2010 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 for the Bonds is Wells Fargo Bank, N.A. (the "Paying Agent" or "Paying Agent/Registrar").

Redemption

Optional Redemption... The Bonds maturing on and after September 1, 2015 are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on September 1, 2014, or on any date thereafter, in integral multiples of \$5,000, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

Mandatory Sinking Fund Redemption.... In addition to being subject to optional redemption, as provided above, the Bonds maturing on September 1, 2026, September 1, 2029 and September 1, 2036 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:

\$225,000 Term Bond		\$225,000 Term Bond		\$750,000 Term Bond	
<u>Maturing September 1, 2026*</u>		<u>Maturing September 1, 2029*</u>		<u>Maturing September 1, 2036*</u>	
Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount	Mandatory Redemption Date	Principal Amount
2024	\$ 75,000	2027	\$ 75,000	2030	\$ 100,000
2025	75,000	2028	75,000	2031	100,000
2026*	75,000	2029*	75,000	2032	100,000
				2033	100,000
				2034	100,000
				2035	125,000
				2036*	125,000

*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 will have been received by the Paying Agent prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent on or prior to the date fixed for such redemption, or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such 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 have not been 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 (“Book-Entry-Only-System”). See “BOOK-ENTRY-ONLY SYSTEM.” In the event that the Book-Entry-Only System is discontinued by DTC or the District, the following provisions will be applicable to the Bonds.

Payment . . . Principal of the 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 the denominations of \$5,000 or any integral multiple thereof.

Limitation on Transfer of Bonds . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15th) (whether or not a business day) calendar day of the month preceding each interest payment date (the “Record Date”) and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

Replacement Bonds

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Authority for Issuance

At an election held within the District on May 12, 2007, voters within the District authorized the issuance of a total of \$31,120,000 in unlimited tax bonds for water, wastewater and drainage facilities. The Bonds constitute the first installment of bonds issued by the

District. After the sale of the Bonds, \$29,345,000 in principal amount of District bonds will remain authorized but unissued for water, wastewater and drainage facilities. Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of \$7,040,000 in bonds for the acquisition and construction of parks and recreational facilities, all of which remain authorized but unissued. The Bonds are issued pursuant to the terms and provisions of the Bond Order; Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution. The issuance of the Bonds has been approved by an order of 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 all 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 Bond Order provides for the termination of the pledge of taxes when and if Round Rock annexes and dissolves the District and assumes all debts and liabilities of the District.

Under Texas law, the District may be annexed and dissolved by Round Rock without the consent of the District or its residents. When the District is annexed, Round Rock must assume the assets, functions, and obligations of the District (including the Bonds) and the pledge of taxes will terminate. No representation is made concerning the likelihood of annexation and dissolution or the ability of Round Rock to make debt service payments on the Bonds should dissolution occur.

The Bonds are obligations solely of the District and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any political subdivision or entity other than the District.

Payment Record

The Bonds constitute the initial installment of bonds issued by the District. Therefore, the District has no bond payment history. See "FINANCIAL STATEMENT – Outstanding Bonds."

Flow of Funds

The Bond Order provides for the establishment and maintenance by the District of a Debt Service Fund and a Capital Projects Fund.

Each fund shall be kept separate and apart from all other funds of the District. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the registered owner of the Bonds.

Any cash balance in any fund must be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

Debt Service Fund... The Bond Order establishes the Debt Service Fund to be used to pay principal and interest on and Paying Agent fees in respect to 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 interest and twenty-four months' 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 of) the Bonds, and (iii) such other funds as the Board shall, at its option, deem advisable. The Bond Order requires that the Debt Service Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due, and to pay fees to Paying Agent when due.

Capital Projects Fund... The Capital Projects Fund is the capital improvements fund of the District. The Bond Order requires the District to deposit to the credit of the Capital Projects Fund the balance of the proceeds of the Bonds remaining after the deposits to the Debt Service Fund provided in the Bond Order. The Capital Projects Fund may be applied solely to (i) pay the costs necessary or appropriate to accomplish the purposes for which the Bonds are issued, (ii) pay the costs of issuing the Bonds and (iii) to the extent the proceeds of the Bonds and investment income attributable thereto are in excess of the amounts required to acquire and construct water, wastewater and drainage facilities as approved by TCEQ, then it is in the discretion of the Board of Directors of the District to transfer such unexpended proceeds or income to the Debt Service Fund or to utilize such funds as otherwise authorized by the TCEQ.

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 Registrar for such Defeased Bonds the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Bond Order.

For purposes of these provisions, "Defeasance Securities" means (i) direct non-callable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) non-callable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board of Directors adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, 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 order authorizing its issuance, the District may call such Defeased Bond for redemption upon complying with the provisions of Texas law and upon satisfaction of the provisions set forth above regarding such Defeased Bond as though it was being defeased at the time of the exercise of the option to redeem the Defeased Bond and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased 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 Wells Fargo Bank, N.A. having an office for payment in Austin, Texas, the Paying Agent. The Paying Agent must be either a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

Provision is made in the Bond Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/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 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 May 12, 2007, voters within the District authorized the issuance of unlimited tax bonds in the principal amounts of \$31,120,000 for the purpose of providing water, wastewater, and drainage facilities to meet the needs of the residents and customers of the District. Following the issuance of the Bonds, \$29,345,000 in unlimited tax bonds authorized by the District voters will remain authorized but unissued for water, wastewater and drainage facilities. See "FINANCIAL STATEMENT – Authorized But Unissued Bonds." Additionally, at the election held in the District on May 12, 2007, the voters within the District approved the issuance of \$7,040,000 in bonds for the acquisition and construction of parks and recreational facilities, all of which remain authorized but unissued. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional bonds which may be issued by the District. Any additional bonds issued by the District may dilute the security of the Bonds. See "RISK FACTORS."

According to the District's engineer, the \$29,345,000 in principal amount of bonds authorized but unissued (after issuance of the Bonds), should be sufficient to reimburse the developers for the water, wastewater and drainage facilities required for development within the District. 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 refunding bonds, as well as revenue bonds and notes without voter approval. 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 of 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.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Section 49.186 of the Water Code, bonds, notes or other obligations issued by a municipal utility 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 Water Code provides that bonds, notes or other obligations issued by a municipal utility 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. See "MUNICIPAL BOND RATINGS AND INSURANCE".

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 omit 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 non-compliance with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Additional Covenants

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

Remedies in Event of Default

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, subject to the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

Consolidation

A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water system with the water system(s) of the district(s) with which it is consolidating. The revenues of the consolidated system may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will consolidate its water system with that of any other district.

Annexation

The District lies within the extraterritorial jurisdiction of Round Rock. Under Texas law, Round Rock cannot annex territory within a district unless it annexes the entire district. At such time as it is permissible pursuant to law for the District to be annexed, and Round Rock does annex, Round Rock will assume the District's assets and obligations (including the debt service on the Bonds) and dissolve the District. Annexation of territory by Round Rock is a policy-making matter within the discretion of the Mayor and City Council of

Round Rock and therefore, the District makes no representation that Round Rock will ever annex the District and assume its debt.

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to: i) upon satisfying certain conditions, annex additional territory; and ii) exclude land subject to taxation within the District that does not need to utilize the service of District facilities if certain conditions are satisfied including the District simultaneously annexes land of at least equal value that may be practicably served by District facilities. Such land substitution is subject to the approval of the TCEQ. No representation is made concerning the likelihood that the District would effect any change in its boundaries.

Approval of the Bonds

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

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 or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may within the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

both U.S. and non-U.S. securities brokers and of line dealers, banks, trust companies, and clearing corporation that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires

an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

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

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USE AND DISTRIBUTION OF BOND PROCEEDS

The proceeds of the Bonds will be used to finance the District’s share of the following projects: (i) capacity in the McNutt wastewater interceptor line A; and (ii) creation and operating costs. The remaining Bond proceeds will be used to: (i) capitalize approximately twenty-four months' interest requirements on the Bonds; (ii) pay developer interest; and (iii) pay certain engineering costs and 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, \$1,047,000 is required for construction costs, and \$728,000 is required for non-construction costs, including \$194,710 of capitalized interest (approximately twenty-four months' interest at 5.484798%).

CONSTRUCTION COSTS

A. Developer Contribution Items		
None		
	Subtotal Developer Contribution Items	\$ -
B. District Items		
1. McNutt Wastewater Interceptor Line A Capacity		\$ 1,047,000
	Subtotal District Items	\$ 1,047,000
	TOTAL CONSTRUCTION COSTS	\$ 1,047,000

NON-CONSTRUCTION COSTS

A. General Counsel Fees (1.5%)	\$ 26,625	
B. Bond Counsel Fees (1.5%)	26,625	
C. Fiscal Agent Fees (2%)	35,500	
D. Interest		
1. Capitalized Interest (24 months’ @ 5.484798%)	194,710	
2. Developer Interest	188,389	
E. Bond Discount (3%)	53,250	
F. Bond Issuance Expenses	33,158	
G. Operating Expenses	59,401	
H. Creation Expenses	42,339	
I. Market Study	1,500	
J. Bond Application Report Costs	42,000	
K. Attorney General Fees (0.10%)	1,775	
L. TCEQ Bond Issuance Fee (0.25% BIR)	4,438	
M. Contingency ^(a)	<u>18,290</u>	
	TOTAL NON-CONSTRUCTION COSTS	<u>\$ 728,000</u>

TOTAL BOND ISSUE REQUIREMENT **\$ 1,775,000**

(a) In its approval of the issuance of the Bonds, the Commission directed any surplus bond proceeds resulting from the sale of the Bonds at a lower interest rate (than anticipated in the bond application) to be shown as a contingency item and be subject to the Commission rules on use of surplus bond funds.

RISK FACTORS

General

The Bonds, which are obligations of the District and are not obligations of Round Rock; Williamson County, Texas; the State of Texas; or any other political subdivision, will be secured by a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District. 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 "RISK FACTORS - Registered Owners' Remedies."

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

In recent months, deteriorating economic conditions and disruption in the housing market has led to a significant number of foreclosures on single-family homes in the Central Texas area market. In the District, there have been no foreclosures on single-family homes in 2009. No assurance can be given whether the number of foreclosures will increase or that market conditions will improve.

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

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

The competitive position of the Developers in the sale of developed lots and of prospective 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 Developers will be implemented or, if implemented, will be successful.

Developer Loans: The Developer's outstanding development loan matures in March 2011. In the event the lender does not renew the loan then given the current lack of credit and liquidity in the financial markets, it may be difficult for the Developer to refinance its loan which could trigger the foreclosure and other remedies under the loan agreement in the event the Developer is unable to pay the loan off.

Homebuilders: During 2009, the housing market in general continued its downturn and as a result, all homebuilders, including the homebuilders within the District, are currently experiencing challenges due to the general market conditions, state of the national economy and the lack of credit and liquidity available.

Developers under No Obligation to the District: There is no commitment from, or obligation of, any developer to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District, and there is no restriction on any landowner's right to sell its land. The District can make no prediction as to the effects that current or future economic or governmental circumstances may have on any plans of the Developers. 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 principal taxpayers in the District are the Developers. The District is dependent upon the Developers and the other principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such financial conditions may have on their ability to pay taxes. See "THE DEVELOPER" and "TAX DATA - Principal Taxpayers."

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of the District property owners to pay their taxes. The 2009 Certified Assessed Valuation is \$17,463,929 (see "FINANCIAL STATEMENT"). After issuance of the Bonds, the Maximum Annual Debt Service Requirement will be \$147,750 (2022) and the Average Annual Debt Service Requirement will be \$130,525 (2012 through 2036, inclusive). Based on the 2009 Certified Assessed Valuation of \$17,463,929, a tax rate of \$0.90/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual Debt Service Requirement of \$147,750, and a tax rate of \$0.79/\$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement of \$130,525. The District's Estimated Assessed Valuation as of January 15, 2010 is \$24,500,000 (see "FINANCIAL STATEMENT"). Based on the assumptions above and the Estimated Assessed Valuation as of January 15, 2010 of \$24,500,000, a tax rate of \$0.64/\$100 assessed valuation, at a 95% collection rate, and a tax rate of \$0.57/\$100 assessed valuation, at a 95% collection rate, would be necessary to pay the Maximum Annual and the Average Annual Debt Service Requirement, respectively. See "DEBT SERVICE SCHEDULE" and "TAX DATA - Tax Adequacy for Debt Service."

Tax Collections and Foreclosure Remedies

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. 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.

Bankruptcy Limitation to Registered Owners' Rights

District Bankruptcy: 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 State 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 involving the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A Federal bankruptcy court is a court of equity and Federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the registered owners could potentially and adversely impair the value of the registered 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.

Developer Bankruptcy: In the event of bankruptcy of the Developers or other major landowners within the District, it is possible the District could experience volatility in the ad valorem tax rate established by the District as well as a disruption in the timing of receipt of ad valorem taxes from any such bankrupt entities.

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

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

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

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

Marketability

The District has no understanding with the 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

The District has reserved in the Bond Order the right to issue the remaining \$29,345,000 in authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining \$29,345,000 unlimited tax bonds which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ. In the opinion of the District's engineer, the remaining authorization should be sufficient to reimburse the Developers for the water, wastewater and drainage facilities required to serve the development within the District. See "THE SYSTEM".

To date, the Developers have advanced a total of approximately \$6,261,000 to construct water, wastewater and drainage facilities to serve the property within the District. Following the issuance of the Bonds, the District will still owe the Developers approximately \$5,112,000 for additional water, wastewater and drainage facilities which have been constructed to date.

The District anticipates that it may issue the full principal amount of authorized but unissued bonds for water, wastewater and drainage facilities (\$29,345,000), as well as the \$7,040,000 in authorized but unissued bonds for park and recreational facilities, in installments over the next several years. Each future issue of bonds is intended to be sold at the earliest practicable date consistent with the maintenance of a reasonable tax rate in the District (assuming projected increases in the value of taxable property made at the time of issuance of the bonds are accurate) see "THE DEVELOPERS - Utility Development Agreements". The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the Commission pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS -Issuance of Additional Debt." See "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED".

Governmental Approval

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See "USE AND DISTRIBUTION OF BOND PROCEEDS". In its order approving creation of the District, the TCEQ required that in order for certain improvements in the District to be considered in connection with its review of feasibility of the Bonds, improvements be made to two dams ("Dam 15" and "Dam 16"), owned by Brushy Creek Water Control and Improvement District, located outside of the District that affected an area within the District. The improvements to the dams were made and evidence of the improvements was provided to the TCEQ as confirmed by the TCEQ letter dated October 16, 2008 (as to Dam 15) and by letter dated August 28, 2009 (as to Dam 16). The TCEQ approved the issuance of the Bonds by an order signed on December 28, 2009 (the "TCEQ Order"). In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

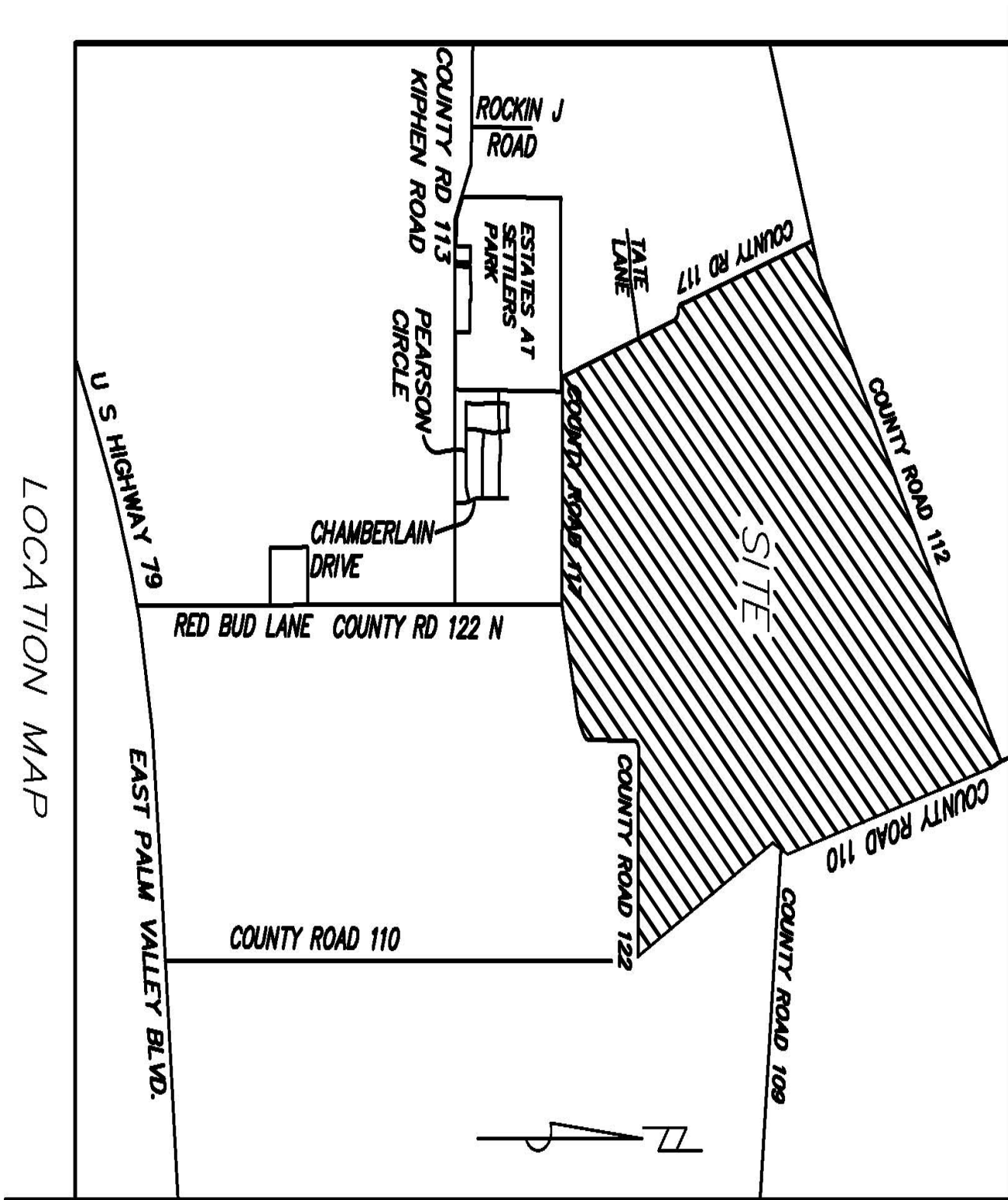
Forward-Looking Statements

The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements.

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

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LOCATION MAP



LOCATION MAP

THE DISTRICT

General

The District, a political subdivision of the State of Texas, was created by order of the TCEQ dated August 10, 2006, and operates pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District was created for the purposes of providing, operating, and maintaining facilities to control storm water, distribute potable water, and collect and treat wastewater. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; the control and diversion of storm water and the operation of park and recreational facilities. Pursuant to Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code, certain districts, such as the District, may issue bonds, subject to voter approval and the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of water, wastewater, drainage, park and recreational facilities. The District may also establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the TCEQ. The District as created contained approximately 347.17 acres. On February 21, 2007, approximately 7.25 acres were excluded from the District, bringing the total acreage of the District to approximately 339.92 acres. Fire protection and emergency services are provided to the District by Emergency Services District No. 9.

Management

Board of Directors

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>	<u>Length of Service</u>
Carter Breed	President	2010	3 Years
Meagan Banse	Vice President	2010	3 Years
Christopher Blackburn	Secretary	2012	2 ¼ Years
James Knight	Assistant Secretary	2012	3 Years
Kari Johnson	Director	2012	8 Months

Consultants

Tax Assessor/Collector... Land and improvements in the District are being appraised by the Williamson Central Appraisal District ("WCAD"). The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Williamson County Tax Assessor/Collector, Ms. Deborah Hunt, currently serves the District in this capacity under contract.

General Manager / Operator... The District contracts with SWWC Services, Inc. ("SWWC") to serve as general manager / operator. SWWC serves in a similar capacity for 53 other special districts in the Austin metropolitan area.

Bookkeeper... Bott & Douthitt, P.L.L.C ("B&D") is charged with the responsibility of providing bookkeeping services for the District. B&D serves in a similar capacity for 32 other special districts.

Engineer... The District's consulting engineer is Jones-Heroy & Associates, Inc. (the "Engineer"). Such firm serves as consulting engineer to 18 other special districts.

Auditor... The District's financial statements for the fiscal year ended September 30, 2009 were prepared by McCall, Gibson, Swedlund, Barfoot P.L.L.C., formerly called McCall, Gibson & Company, P.L.L.C. ("MGSB"), Certified Public Accountants. See "Appendix A" for a copy of the District's September 30, 2009 audited financial statements.

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

Bond Counsel 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 has engaged Armbrust & Brown, L.L.P. (“A&B”) as general counsel. Fees paid to A&B for work related to the issuance of the Bonds are contingent upon the sale of the Bonds.

Location

The District, which encompasses approximately 340 acres of land, is located in northeast Williamson County and lies approximately six miles northeast of downtown Round Rock, five miles southeast of Georgetown, five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock and is bounded on the south by CR 122, on the north by CR 112 and on the east by CR 110. See “LOCATION MAP.”

Current Status of Development

As of January 15, 2010, the development in the District consisted of 136 developed single family lots, 87 completed homes, 14 homes under construction, and 35 vacant single family lots. Paloma Lake Section 17B (10.32 acres; platted as 43 single family lots) is currently under construction and is expected to be completed by July 2010. Paloma Lake Section 19A (9.96 acres; expected to be platted as 44 single family lots) is currently under construction and is expected to be completed by April 2010.

The chart below reflects the status of development as of January 15, 2010

	Net Acreage	Platted Lots	Completed Homes	Single Family Homes Under Construction	Vacant Lots
A. Developed with Utility Facilities					
Section 17A	16.18	59	34	8	17
Section 18	18.62	77	53	6	18
Total Developed with Utilities	34.80	136	87	14	35
B. Sections Currently Under Construction					
Section 17B ^(a)	10.32				
Section 19A ^(b)	9.96				
C. Total Developed with Utilities or Under Construction	55.08	136	87	14	35
D. Remaining Developable Acreage					
Remaining Developable Acreage	167.74				
Total Undeveloped but Developable Acres	167.74				
E. Undevelopable Acreage					
	117.10				
Total	339.92				

(a) Section 17B (10.32 acres; platted as 43 single family lots) is currently under construction and is expected to be completed by July 2010.
 (b) Section 19A (9.96 acres; expected to be platted as 44 single family lots) is currently under construction and is expected to be completed by April 2010.

Future Development

The remaining undeveloped but developable 167.74 acres in the District is expected to be developed as the residential sections of Paloma Lake Sections 19B, 20, 21, 22, 23, 24 and an amenity center. The initiation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, general and 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 "RISK FACTORS." If the undeveloped portion of the District is eventually developed, additions to the District's water, wastewater, and drainage systems required to service such undeveloped acreage may be financed by future issues of the District's bonds and developer contributions, if any, as required by the TCEQ. The District's Engineer estimates that the \$29,345,000 remaining principal amount of voted water, wastewater, and drainage bonds which are authorized to be issued should be sufficient to reimburse the Developers for the existing utility facilities and provide utility service to remaining undeveloped but potentially developable acreage within the District. See "THE BONDS - Issuance of Additional Debt." The Developers are 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.

Annexation of the District

The District lies within the extraterritorial jurisdiction of Round Rock. See “THE BONDS - Annexation” for a discussion of the ability of Round Rock to annex the District.

Consent Agreement with Round Rock

Effective September 22, 2005, Round Rock and Blake Magee Investments, L.P, the predecessor to Paloma Lake Development, entered into a Consent Agreement under the terms of which Round Rock consented to the creation of the District and Paloma Lake Municipal Utility District No. 1 (“Paloma Lake MUD No. 1”). The Consent Agreement also includes terms regarding the Developer’s cost participation in and Round Rock’s reservation of capacity for the District and Paloma Lake MUD No. 1 in the McNutt Interceptor Project, a Round Rock wastewater interceptor project which has been constructed to transport wastewater from the McNutt drainage basin, which includes the District and Paloma Lake MUD No. 1, to the Brushy Creek East regional wastewater treatment plant and certain off-site water facilities to serve the land within the District and Paloma Lake MUD No 1; the development of the land within the District and Paloma Lake MUD No.1 and Round Rock’s provision of wholesale water and wastewater service to the District and Paloma Lake MUD No. 1. The Consent Agreement also confirms Round Rock’s approval of the concept plan for the development of the land in the District and Paloma Lake MUD No. 1 and provides for the Developer’s construction of certain roadway improvements required by Round Rock. Under the Consent Agreement, Round Rock agreed that it would not annex the District until (i) water, wastewater and drainage facilities have been completed to serve at least 90% of the developable acreage within the District and (ii) (a) the Developer has been reimbursed by the District for those facilities in accordance with the rules of the TCEQ or (b) Round Rock has agreed to assume the obligation to reimburse the Developer under those rules.

Concurrently with the execution of the Consent Agreement, Blake Magee Investments, L.P., assigned all of its rights duties and obligations under the Consent Agreement to the Paloma Lake Development, and Round Rock consented to the assignment, by “Assignment of Consent Agreement for Paloma Lake Municipal Utility District No. 1 and Paloma Lake Municipal Utility District No. 2 and Consent to Assignment” dated effective September 22, 2005. Effective May 31, 2007, Round Rock and Paloma Lake Development entered into “Amendment No. 1 to Consent Agreement”, under which, among other things, Round Rock and Paloma Lake Development agreed to certain modifications to Paloma Lake Development’s cost participation obligations. An additional amendment to the Consent Agreement is currently being negotiated by Paloma Lake Development and Round Rock.

By Assignment of Capacity and Capacity Rights dated October 8, 2008, Paloma Lake Development assigned its rights to capacity in certain facilities constructed under the Consent Agreement required to serve the District and Paloma Lake MUD No. 1 to each of the districts.

MAJOR LANDOWNER

A major landowner in the District is Carol C. Nelson (the “Major Landowner”). The Major Landowner is the original land owner of all of the land within the District and has retained ownership of approximately 155.25 acres in the District, of which 132.10 acres are developable and 23.15 acres are undevelopable. The Major Landowner previously executed an option contract with the Developer for the remaining 155.25 acres, however, the option contract was terminated and the Major Landowner is not presently marketing its acreage for sale.

THE DEVELOPERS

General

In general, the activities of a landowner or developers 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, the developers pay 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 landowner or developer is required by the TCEQ to pave streets and pay for its allocable portion of the costs of utilities to be financed by the district through a specific bond issue, 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 Developers

The developers currently active within the District are Paloma Lake Development, Inc. (“Paloma Lake Development”) a Texas corporation, of which Blake Magee is the president and Standard Pacific of Texas L.P. (“Standard Pacific”), a Delaware limited partnership whose general partner is Standard Pacific of Texas, Inc., a Delaware corporation, of which William Peckman is division president (collectively, the “Developers”).

Acquisition and Development Financing

According to Paloma Lake Development, in September 2005, February 2006 and February 2007, respectively, it purchased three tracts of land totaling approximately 471 acres, including approximately 185 acres within the District (the “Developers Land”), along with approximately 286 acres of land within Paloma Lake MUD No. 1, located adjacent to the District. The land was purchased from the Major Landowner with an option to purchase the remaining 155.25 acres located within the District. In January 2009, the option contract was terminated.

Paloma Lake Development stated that, in March 2006, it obtained a revolving line of credit in the amount of \$12,500,000 from Comerica Bank, N.A. for the purpose of acquiring and developing the acreage it owns within the District and Paloma Lake MUD No. 1 (the “Development Loan”). According to Paloma Lake Development, interest on the Development Loan is paid quarterly. According to Paloma Lake Development, the Development Loan matures in March 2011. Paloma Lake Development has also represented it is in compliance with the terms of the Development Loan. The acquisition of the Developers Land and approximately 286 acres located within Paloma Lake MUD No. 1 was financed through a combination of a cash payment and loan proceeds from the Development Loan.

In February 2006, Paloma Lake Development sold 67.35 of its 185 acres to Standard Pacific, to be developed into 277 single family lots. To date, Standard Pacific has developed or is currently developing 55.08 acres as Sections 17A (16.18 acres; platted as 59 single family lots), 17B (10.32 acres; platted as 43 single family lots), 18 (18.62 acres; platted as 77 lots), and 19A (9.96 acres; platted as 44 lots). Standard Pacific is a publicly traded company and is self-financed.

For more information concerning Paloma Lake Development, see “APPENDIX B -- Unaudited Financial Statement of Paloma Lake Development.” Paloma Lake Development is not responsible for, liable for, and has not made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of Paloma Lake Development’s financial statements and description of its financial arrangements herein should not be construed as an implication to that effect. Paloma Lake Development has no legal commitment to the District or owners of the Bonds to continue development of land within the District and may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, Paloma Lake Development’s financial condition is subject to change at any time. Because of the foregoing, financial information concerning Paloma Lake Development will neither be updated nor provided following issuance of the Bonds.

Purchase of Land in District by Standard Pacific

In February 2006, Standard Pacific contracted to purchase from Paloma Lake Development land in the District consisting of Phases 17A, 17B, 18, 19A, 19B and 16 lots in Phase 21 (the “Initial Property”). Standard Pacific also agreed to a second closing whereby it would purchase land consisting of Phases 20, the remainder of Phase 21, Phase 22 and 11 lots in Phase 23 and a third closing whereby it would purchase the remainder of Phase 23 and Phase 24. Standard Pacific purchased the Initial Property in February 2006, but did not complete the purchase of land under the second and third closings for future phases within the District.

The Initial Property consists of 67.35 acres out of the 191 acres owned by Paloma Lake Development to be developed into 277 single family lots. In connection with Standard Pacific’s purchase of the Initial Property, Standard Pacific and Paloma Lake Development also entered into a development agreement under which Paloma Lake Development agreed to develop the Initial Property for Standard Pacific. To date, 55.08 acres has been developed or is currently being developed as Sections 17A (16.18 acres; platted as 59 single family lots), 17B (10.32 acres; platted as 43 single family lots), 18 (18.62 acres; platted as 77 lots), and 19A (9.96 acres; platted as 44 lots).

Standard Pacific is a publicly traded company and is self-financed. As a publicly traded company, Standard Pacific is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). Such reports, proxy statement and other information may be inspected at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington D.C. 20549 and at the following regional offices of the SEC: 26 Federal Plaza, New York, New York 10007 and Kluczynski Building, 230 South Dearborn Street, Chicago, Illinois 60604. Copies of such material can be obtained at prescribed rates by writing to the public reference section of the SEC at 450 Fifth Street, N.W., Washington D.C. 20549.

Homebuilders within the District

Standard Pacific Homes is currently the only homebuilder building homes within the District. Standard Pacific Homes is building homes in two lot sizes (53’ and 60’) and the homes range in price from \$160,000 to \$300,000, with square footage ranging from 1,500 to 3,200. As of January 15, 2010, the development in the District consisted of 136 developed single family lots, 87 completed homes, 14 homes under construction, and 35 vacant single family lots. Paloma Lake Section 17B (10.32 acres; platted as 43 single family lots) is currently under construction and is expected to be completed by July 2010. Paloma Lake Section 19A (9.96 acres; expected to be platted as 44 single family lots) is currently under construction and is expected to be completed by April 2010.

Home construction in the District began in 2008. The following chart illustrates the number of homes built per year starting in 2008.

Calendar Year	No. of Single-Family Homes Constructed
2008	46
2009	41

Utility Development Agreement

In February, 2006, Paloma Lake Development and Standard Pacific entered into an “Agreement Regarding Reimbursement Rights” relating to the reimbursements from the District for certain facilities constructed to serve the 67.35 acres of land in the District sold by Paloma Lake Development to Standard Pacific, under which each of Paloma Lake Development and Standard Pacific would receive one-half of those reimbursements. Effective January 30, 2009, the Developer conveyed certain water, wastewater and drainage facilities and assigned certain receivables under its Utility Construction Agreement with the District, including the reimbursements that are contemplated to be made through the proceeds of the Bonds, to Paloma Lake MUD, LLC, a Texas limited liability company.

The District has executed one utility construction agreement, as amended, with Paloma Lake Development. Such agreement governs the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District.

It is anticipated that proceeds of the Bonds will be used to reimburse the Developers or their assignees for costs of capacity in the McNutt Wastewater Interceptor Line A which serves the District, and to reimburse the Developer for certain creation and operating costs.

Agricultural Waiver

Much of the undeveloped acreage within the District is subject to an agricultural exemption, however, Paloma Lake Development has executed an agreement with the District and Comerica Bank, N.A. as lienholder on the Developer Land (“Lienholder”) has joined in such agreement that is recorded in the real property records of Williamson County, and is a covenant running with the land, waiving the right to have the land located within the District classified as agricultural, open-space or timberland for purposes of taxation by the District. In addition, Paloma Lake Development and Lienholder have waived the right to have the lots and houses (if any) classified as business inventory for purposes of taxation by the District. Such agreements may not be modified without the approval of the TCEQ and are binding on purchasers of such land from Paloma Lake Development. See “TAXING PROCEDURES - Property Subject to Taxation by the District.”

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THE SYSTEM

Regulation

The water, wastewater 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, Williamson County and Round Rock. According to Jones-Heroy & Associates, Inc. (the "Engineer"), the design of all such facilities has been approved by all governmental agencies which have authority over the District.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the U.S. Environmental Protection Agency and the TCEQ.

Water Supply and Distribution

The District receives its potable water supply from Round Rock pursuant to a water supply contract dated September 13, 2007 between the District and Round Rock, entitled "Paloma Lake Municipal Utility District No. 2 Wholesale Water and Wastewater Agreement" (the "Round Rock Agreement"). Under the Round Rock Agreement, Round Rock has agreed to provide water from Round Rock's surface water plant, which has a capacity of 52 MGD.

Pursuant to the Round Rock Agreement, Round Rock is contractually obligated to provide a minimum of 35 psi at each customer meter and a minimum flow rate of 0.6 gpm per ESFC. Pursuant to the Round Rock Agreement, the District collects water impact fees for each connection and remits them to Round Rock. These fees are paid by the homebuilders and are not intended to be reimbursed by the District.

The District owns and operates the water distribution system within its boundaries. Round Rock has, pursuant to the Round Rock Agreement, agreed that the District will be the exclusive retail water provider within its boundaries. The District has one 12-inch interconnect with Paloma Lake MUD No. 1.

Pursuant to the Consent Agreement, Round Rock agreed to construct 36-inch and 24-inch offsite water lines to serve the District and Paloma Lake MUD No. 1. The 36-inch line is complete. The 36-inch transmission line extends from FM 1460 eastwards along CR 117, then southward along CR 117 along the western boundary of Paloma Lake MUD No. 1, then eastwards along CR 117 to the District Master Meter at Red Bud Lane.

On October 8, 2008, the Developer assigned capacity rights in the offsite water lines to the District based on the projected ultimate build-out within the District and Paloma Lake MUD No. 1.

Wastewater Collection and Treatment

Round Rock provides wholesale wastewater collection and treatment services to the District. Round Rock collects wastewater from the District through the McNutt Wastewater Interceptor pursuant to the Round Rock Agreement. The Developer has assigned capacity for 880 living-unit-equivalents ("LUE's") of wastewater capacity in the McNutt Wastewater Interceptor to the District, which, under the current land plan, should be sufficient to serve the District at ultimate development.

The District collects wastewater impact fees for all new connections and remits them to Round Rock. These fees are paid by the homebuilders and are not intended to be reimbursed by the District.

Round Rock obtains wastewater treatment service through the Brushy Creek Regional Wastewater Treatment Facility ("BCRWTF"). The BCRWTF operates under TPDES Permit #WQ0010264002 and has a treatment capacity of 21.5 MGD.

The District owns and operates the wastewater collection system within its boundaries.

Pursuant to the Consent Agreement, Round Rock agreed to construct the McNutt Interceptor Segment A to serve the District and Paloma Lake MUD No. 1. The Developer agreed to pay for 2,000 LUE's of capacity in Segment A on behalf of the District and Paloma Lake MUD No. 2. Line A is complete, and the District proposes to reimburse the Developer for capacity in that line which the Developer funded pursuant to the Consent Agreement. Segment A extends from the BCRWTF to McNutt Interceptor Segment B, which serves the District and Paloma Lake MUD No. 1. Segment B is also complete and the Developer will be reimbursed through future bond issuances of the District and Paloma Lake MUD No. 1.

On October 8, 2008, the Developer assigned capacity rights in McNutt wastewater lines to the District based on the projected ultimate build-out within the District and Paloma Lake MUD No. 1.

100-Year Flood Plain and Storm Drainage Information

According to the Engineer, approximately 80 acres within the District are currently located in the 100-year floodplain as shown in the Federal Emergency Management Agency Flood Insurance Rate Map dated September 26, 2008 for Williamson County.

Water, Wastewater and Drainage Operations

Rate and Fee Schedule - Table 1

The Board of Directors of the District establishes rates and fees for water and sewer service. The following schedule sets forth the rates and fees for the District's water and sewer service which were effective as of January 13, 2010.

Monthly Base Charge – Water and Wastewater
5/8”and 3/4”

\$ 32.80

Water Usage Charge

0-10,000 gallons
10,001 –30,000 gallons
30,001 to Unlimited

\$ 3.00 (per 1,000 gallons)
3.50 (per 1,000 gallons)
3.95 (per 1,000 gallons)

Wastewater Usage Charge

Computed based on 70% of the customer’s actual water usage

\$ 3.77 (per 1,000 gallons)

The District also charges the following security deposit, water tap fees and sewer tap fees:

Security Deposit

<u>Meter Size</u>	
5/8”and 3/4” - Owners	
5/8”and 3/4” - Renters	

<u>Fee</u>
\$ 100.00
150.00

Water Tap Fee

<u>Meter Size</u>
All meters

<u>Fee</u>
\$ 600.00 (per Fee Unit Equivalent)

Sewer Tap Fee

<u>Meter Size</u>
All meters

<u>Fee</u>
\$ 450.00 (per Fee Unit Equivalent)

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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. Reference is made to such statements for further and more complete information. Also see "Appendix A – Audited Financial Statements."

	<u>Fiscal Year Ended September 30, -</u>	
	<u>2009</u> ^(a)	<u>2008</u> ^(a)
REVENUES		
Water and Wastewater Service, including penalties	\$ 116,026	\$ 59,987
Property Tax Revenues, including penalties	108,984	17,420
Tap Fees and Inspections	64,800	15,020
Miscellaneous	652	25
Interest	-	-
TOTAL REVENUES	<u>\$ 290,462</u>	<u>\$ 92,452</u>
EXPENDITURES		
Water and Wastewater Purchases	\$ 82,663	\$ 25,756
Disposal Service	6,801	1,135
Repairs and Maintenance	6,124	12,456
Inspection Fees	14,963	7,385
Security Lights	4,657	1,682
Director Fees, including payroll taxes	7,266	7,266
Legal Fees	46,214	50,850
Engineering Fees	10,882	4,935
Management Fees	12,671	7,131
Bookkeeping Fees	17,797	8,915
Audit Fees	8,500	6,500
Other Consulting Fees	1,264	1,212
Insurance	1,399	1,414
Tax Appraisal / Collection Fees	822	444
Other	2,429	1,471
Capital Outlay	-	-
TOTAL EXPENDITURES	<u>\$ 224,452</u>	<u>\$ 138,552</u>
EXCESS REVENUES	\$ 66,010	\$ (46,100)

(a) Audited.

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DEBT SERVICE SCHEDULE – TABLE 3
PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
\$1,775,000
Unlimited Tax Bonds, Series 2010
Issue Dated: March 1, 2010
First Interest Payment Due: September 1, 2010

Year Ending 31-Dec	Series 2010					Total Debt Service Requirements
	Principal (Due 9/01)	Interest			Principal and Interest	
		(Due 3/01)	(Due 9/01)	Total		
2010	\$ -	\$ -	\$ 45,431	\$ 45,431	\$ 45,431	\$ 45,431
2011	-	45,431	45,431	90,863	90,863	90,863
2012	25,000	45,431	45,431	90,863	115,863	115,863
2013	25,000	44,963	44,963	89,925	114,925	114,925
2014	25,000	44,494	44,494	88,988	113,988	113,988
2015	50,000	44,025	44,025	88,050	138,050	138,050
2016	50,000	43,088	43,088	86,175	136,175	136,175
2017	50,000	42,088	42,088	84,175	134,175	134,175
2018	50,000	41,038	41,038	82,075	132,075	132,075
2019	50,000	39,938	39,938	79,875	129,875	129,875
2020	50,000	38,788	38,788	77,575	127,575	127,575
2021	50,000	37,600	37,600	75,200	125,200	125,200
2022	75,000	36,375	36,375	72,750	147,750	147,750
2023	75,000	34,500	34,500	69,000	144,000	144,000
2024	75,000	32,578	32,578	65,156	140,156	140,156
2025	75,000	30,609	30,609	61,219	136,219	136,219
2026	75,000	28,641	28,641	57,281	132,281	132,281
2027	75,000	26,672	26,672	53,344	128,344	128,344
2028	75,000	24,656	24,656	49,313	124,313	124,313
2029	75,000	22,641	22,641	45,281	120,281	120,281
2030	100,000	20,625	20,625	41,250	141,250	141,250
2031	100,000	17,875	17,875	35,750	135,750	135,750
2032	100,000	15,125	15,125	30,250	130,250	130,250
2033	100,000	12,375	12,375	24,750	124,750	124,750
2034	100,000	9,625	9,625	19,250	119,250	119,250
2035	125,000	6,875	6,875	13,750	138,750	138,750
2036	125,000	3,438	3,438	6,875	131,875	131,875
	<u>\$ 1,775,000</u>	<u>\$ 789,491</u>	<u>\$ 834,922</u>	<u>\$ 1,624,413</u>	<u>\$ 3,399,413</u>	<u>\$ 3,399,413</u>

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FINANCIAL STATEMENT
(Unaudited as of March 1, 2010)

Assessed Value – Table 4

2009 Certified Assessed Valuation	\$17,463,929 ^(a)
Estimated Assessed Valuation as of January 15, 2010	\$24,500,000 ^(b)
Gross Debt Outstanding (after Issuance of the Bonds)	
District Debt	\$ 1,775,000 ^(c)
Total	\$1,775,000
Debt Service Fund Balance (after Issuance of the Bonds)	\$194,710 ^(d)
Ratio of Gross Debt to 2009 Certified Assessed Valuation.....	10.16%
Ratio of Gross Debt to Estimated Assessed Valuation as of January 15, 2010	7.24%

Area of District: 339.92 acres
Estimated Population as of January 15, 2010: 256 ^(e)

- (a) Assessed valuation of the District as of January 1, 2009, certified by WCAD. See "TAXING PROCEDURES."
(b) The Estimated Assessed Valuation as of January 15, 2010, as provided by WCAD, is included solely for purposes of illustration. No tax will be levied on such amount unless it is certified by WCAD. See "TAXING PROCEDURES."
(c) The Bonds.
(d) Represents approximately twenty-four months of capitalized interest (\$194,710) which will be deposited into the Debt Service Fund at closing from the proceeds of the Bonds. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund.
(e) Based upon 3.5 residents per completed and occupied single family home.

Unlimited Tax Bonds Authorized but Unissued - Table 5

Date of Authorization	Purpose	Authorized	Issued to Date	Unissued
05/12/07	Water, Sanitary Sewer & Drainage	\$31,120,000	\$1,775,000 ^(a)	\$29,345,000
05/12/07	Park & Recreational Facilities	<u>7,040,000</u>	-	<u>7,040,000</u>
Total		<u>\$38,160,000</u>	<u>\$1,775,000</u>	<u>\$36,385,000</u>

(a) The Bonds.

Outstanding Bonds - Table 6

Bond Dated Date	Series	Purpose	Original Principal Amount	Principal Amount Outstanding after Issuance of the Bonds
03/01/2010	2010	Water, Sanitary Sewer & Drainage	1,775,000 ^(a)	1,775,000 ^(a)
Total			<u>\$1,775,000</u>	<u>\$1,775,000</u>

(a) The Bonds.

Cash and Investment Balances - Table 7^(a)

Operating Fund	\$ 179,772
Debt Service Fund ^(b)	194,710

(a) Unaudited as of February 10, 2010.

(b) Represents approximately twenty-four months of capitalized interest (\$194,710) which will 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 meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch 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; (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 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 and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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

As of February 10, 2010, the District is currently invested in Texpool (\$123,666.95). 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 February 10, 2010	
Texpool	<u>\$123,666.95</u>
Total Investments	<u>\$123,666.95</u>

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 Texas 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 Amount	As of	% of Overlapping Net Debt	Amount of Overlapping Net Debt
Williamson County	\$ 754,829,942	12/1/2009	0.036%	\$ 273,838
Upper Brushy Creek WCID No. 1A	(a)	12/1/2009	0.000%	0
Williamson County Emergency Services District No. 9	(a)	12/1/2009	0.000%	0
Round Rock Independent School District	636,956,975	12/1/2009	0.058%	<u>366,990</u>
TOTAL ESTIMATED OVERLAPPING NET DEBT				\$ 640,828
The District ^(b)	\$ 1,775,000	12/1/2009	100.00%	1,775,000
TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT				\$ 2,415,828
Ratio of Estimated and Overlapping Debt to 2009 Certified Assessed Valuation				13.83%
Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of January 15, 2010				9.86%
<p>(a) Taxing jurisdiction with no outstanding debt. (b) The Bonds.</p>				

Overlapping Taxes for 2009

Overlapping Entity	2009 Tax Rate Per \$100 Assessed Valuation	Average Tax Bill ^(a)
Williamson County	\$0.4600	\$ 1,014
Upper Brushy Creek WCID No. 1A	0.0200	44
Williamson Co. ESD No. 9	0.1000	220
Round Rock ISD	1.3800	3,041
The District	<u>0.9500</u>	<u>2,093</u>
Total	<u>\$2.9100</u>	<u>\$ 6,412</u>

(a) Based upon the 2009 average single-family home value of \$220,329 as provided by the WCAD.

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TAX DATA

Classification of Assessed Valuation (a) - Table 9

Type of Property	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Land - Homesite	\$ 1,793,450	10.27%	\$ 1,392,550	14.13%	\$ -	0.00%
Land - Non Homesite	4,615,201	26.43%	6,169,946	62.60%	1,803,930	98.36%
Land - Ag Market	4,419,678	25.31%	17,334	0.18%	29,958	1.63%
Improvements - Homesite	6,609,289	37.85%	2,262,288	22.95%	-	0.00%
Improvements - Non Homesite	200	0.00%	200	0.00%	200	0.01%
Personal Property	28,265	0.16%	14,800	0.15%	-	0.00%
Exempt Property	(2,154)	-0.01%	(300)	0.00%	-	0.00%
Total	<u>\$ 17,463,929</u>	<u>100.00%</u>	<u>\$ 9,856,818</u>	<u>100.00%</u>	<u>\$ 1,834,088</u>	<u>100.00%</u>

(a) Reflects classification of assessed valuation as supplied by the District's audited financial statements. Such value may differ from the original certified assessed valuation, and any supplements or adjustments thereto, as supplied by WCAD.

Tax Collections - Table 10

The following statement of tax collections sets forth in condensed form the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District's Tax Assessor/Collector. Reference is made to such audits and records for further and more complete information.

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2007	\$ 1,833,693	0.9500	17,420	17,381	99.78	17,381	99.78	9/30/2008 (a)
2008	11,443,557	0.9500	108,714	108,714	100.00	108,753	100.04	9/30/2009 (a)
2009	17,463,929	0.9500	165,907	153,317	92.41	153,317	92.41	9/30/2010 (b)

(a) Audited.

(b) Unaudited; represents collections as of January 31, 2010.

District Tax Rates - Table 11

Tax Rate per \$100 A.V.	2009	2008	2007
Debt Service	\$0.0000	\$0.0000	\$0.0000
Maintenance	<u>0.9500</u>	<u>0.9500</u>	<u>0.9500</u>
Total	\$0.9500	\$0.9500	\$0.9500

Tax Rate Limitation

The District's tax rate for debt service on the Bonds is legally unlimited as to rate and 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, maintaining, repairing and 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 that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. At an election held on May 12, 2007, 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 2009 maintenance and operation tax of \$0.9500/\$100 assessed valuation. See "THE DISTRICT – General."

Principal Taxpayers - Table 12

The following list of principal taxpayers was provided by the Williamson Central Appraisal District based on the 2009, 2008 and 2007 tax rolls of the District, which reflect ownership as of January 1 of each year shown.

Name	Type of Property	2009 ^(a)	2008 ^(b)	2007 ^(c)
Standard Pacific of Texas LP	Land and Improvements	\$ 7,970,203	\$ 6,712,486	\$ 1,683,750
Paloma Lake Development, Inc.	Land and Improvements	1,118,293	-	128,979
Total		<u>\$ 9,088,496</u>	<u>\$ 6,712,486</u>	<u>\$ 1,812,729</u>
Percent of Assessed Valuation		52.04%	58.66%	98.84%

- (a) Excludes approximately \$2,080,822 in value representing homes owned by individuals.
- (b) Excludes approximately \$2,878,042 in value representing homes owned by individuals.
- (c) Excludes approximately \$21,359 in value representing homes owned by individuals.

Tax Adequacy for Debt Service

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2009 Certified Assessed Valuation and the Estimated Assessed Valuation as of January 15, 2010 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 "RISK FACTORS - Impact on District Tax Rates."

Average Annual Debt Service Requirements on the Bonds (2012 through 2036).....	\$130,525
\$0.79 Tax Rate on 2009 Certified Assessed Valuation of \$17,463,929 @ 95% collections produces	\$131,067
\$0.57 Tax Rate on Estimated Assessed Valuation as of January 15, 2010 of \$24,500,000 @ 95% collections produces	\$132,668
Maximum Annual Debt Service Requirements on the Bonds (2022)	\$147,750
\$0.90 Tax Rate on 2009 Certified Assessed Valuation of \$17,463,929 @ 95% collections produces	\$149,317
\$0.64 Tax Rate on Estimated Assessed Valuation as of January 15, 2010 of \$24,500,000 @ 95% collections produces	\$148,960

Debt Service Fund Management Index

Debt Service Requirements for year ending 12/31/10.....	\$45,431 ^(a)
Debt Service Fund Balance (after the issuance of the Bonds).....	\$194,710 ^(b)
2009 Tax Levy @ 95% collections produces	- ^(c)
Total Available for Debt Service.....	<u>\$194,710</u>

- (a) Interest requirements on the Bonds begin September 1, 2010.
- (b) Represents twenty-four months of capitalized interest which will be deposited into the Debt Service Fund from proceeds of the Bonds at closing.
- (c) The District did not levy a 2009 debt service tax rate.

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, and any additional bonds payable from taxes which the District may hereafter issue (see “RISK FACTORS - 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 State law, the Board is also authorized to levy and collect an ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations, if authorized by its voters. See “TAX DATA - Tax Rate Limitation.”

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State 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. The Williamson Central Appraisal District (the “WCAD”) has the responsibility for appraising property for all taxing units within Williamson County, including the District. Such appraisal values are subject to review and change by the Williamson 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. 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: Williamson 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 WCAD 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.

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. Developers 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 WCAD to implement a plan for periodic reappraisal of property. The plan must provide for appraisal of all real property in the WCAD at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the WCAD 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 WCAD choose formally to include such values on its respective 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 WCAD to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

The qualified voters of the District have the right to petition for a rollback of the District's operation and maintenance tax rate only if the total tax bill on the average residence homestead increases by more than eight percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax 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 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 2009." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

Effect of FIRREA on Tax Collections

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA") contains provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution. See "RISK FACTORS - 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 initial Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of McCall, Parkhurst & Horton L.L.P. ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Bonds, to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described below under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. In 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 for federal income tax purposes interest on the Bonds (i) will be excludable from the "gross income" of the holders thereof and (ii) will not be includable in the owner's alternative minimum taxable income under section 55 of the Internal Revenue Code of 1986, as amended (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX C -- Form of Bond Counsel Opinion."

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate, and (b) covenants of the District contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each 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 accumulated earnings and profits and excess passive investment income, foreign corporations, subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011). 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 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011), there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 (\$30,000,000 for taxable years beginning after December 31, 2008 and ending prior to January 1, 2011) is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned 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 material events, to certain information vendors. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

Annual Reports

The District will provide certain updated financial information and operating data to certain information vendors 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 1 through 12 and in Appendix A. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB.

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

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

Material Event Notices

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds, if such event is material to a decision to purchase or sell Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modifications to rights of registered owners; (8) Bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and

(11) rating changes. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its 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 "Material Event Notices" 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 material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered Owners may seek a writ of mandamus to compel the District to comply with its agreement.

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (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 agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertakings

The Bonds represent the initial installment of bonds issued by the District, therefore, the District has not heretofore been required to comply with any continuing disclosure agreement in accordance with SEC Rule 15c2-12.

FINANCIAL ADVISOR

The Official Statement was compiled and edited under the supervision of Southwest Securities (the "Financial Advisor"), which firm was employed in 2007 as Financial Advisor to the District. The fees paid to 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. The Financial Advisor has requested the right to bid on the Bonds, and the District has given its consent.

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" – Jones-Heroy & Associates, Inc., Round Rock Independent School District, various area commercial and retail establishments and the Developers; "THE DEVELOPERS" – Paloma Lake Development, Inc.; "THE SYSTEM" - Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" - Records of the District ("Records"); "FINANCIAL STATEMENT" - Williamson County Appraisal District; "ESTIMATED OVERLAPPING DEBT

STATEMENT” - Municipal Advisory Council of Texas and Financial Advisor; “TAX DATA” and “WATER AND SEWER OPERATIONS” - Audits, Records and Tax Assessor/Collector; “MANAGEMENT” - District Directors; “DEBT SERVICE REQUIREMENTS” - Financial Advisor; “THE BONDS,” “LEGAL MATTERS,” “TAXING PROCEDURES,” “CONTINUING DISCLOSURE OF INFORMATION” (except in the subheading “Compliance with Prior Undertakings”) and “TAX MATTERS” - McCall, Parkhurst & Horton L.L.P.

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

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 the Engineer, and has been included in reliance upon the authority of said firm in the field of civil engineering.

Auditor: The District's financial statements for fiscal year ending September 30, 2009 were audited by McCall, Gibson, Swedlund, Barfoot P.L.L.C., formerly called McCall, Gibson & Company, PLLC, Certified Public Accountants, and excerpts of the District's Audited Financial Statements as of September 30, 2009 have been included as Appendix A in reliance upon such firm's authority in the field of accounting.

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 and Official Statement to potential customers who request the same pursuant to 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 under the heading "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 to 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 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. Except as set forth in “CONTINUING DISCLOSURE OF INFORMATION” herein, the District has no obligation to disclose any changes in the affairs of the District and other matters described in this Official Statement subsequent to the “end of the underwriting period” which shall end when the District delivers the Bonds to the Initial Purchaser at closing, unless extended by the Initial Purchaser. All information with respect to the resale of the Bonds subsequent to the “end of the underwriting period” is the responsibility of the Initial Purchaser.

Annual Audits

Under Texas 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. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any Registered Owner or other member of the public within a reasonable time on request, upon payment of charges prescribed by the Texas General Services Commission.

This Official Statement was approved by the Board of Directors of Paloma Lake Municipal Utility District No. 2, as of the date shown on the first page hereof.

/s/ Carter Breed
President, Board of Directors
Paloma Lake Municipal Utility District No. 2

/s/ Christopher Blackburn
Secretary, Board of Directors
Paloma Lake Municipal Utility District No. 2

PHOTOGRAPHS

The following photographs were taken in the District in February 2010. The homes shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."









PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO.2

A POLITICAL SUBDIVISION OF
THE STATE OF TEXAS

APPENDIX A
Audited Financial Statements

The information contained in this appendix has been excerpted from the audited financial statements of Paloma Lake Municipal Utility District No. 2 for the fiscal year ended September 30, 2009. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**PALOMA LAKE
MUNICIPAL UTILITY DISTRICT NO. 2**

YEAR ENDED SEPTEMBER 30, 2009

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT**

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**PALOMA LAKE
MUNICIPAL UTILITY DISTRICT NO. 2**

**FINANCIAL STATEMENTS,
SUPPLEMENTAL INFORMATION
AND
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2009**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2

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ANNUAL FILING AFFIDAVIT

ANNUAL FILING AFFIDAVIT

STATE OF TEXAS
COUNTY OF TRAVIS

I, _____ of the
(Name of Duly Authorized District Representative)

PALOMA LAKE MUNICIPAL UTILITY 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 **10th day of February, 2010** its annual audit report for the fiscal period ended **September 30, 2009** 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

Form TCEQ-0723 (Revised 10/2003)

INDEPENDENT AUDITORS' REPORT

McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

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

7801 N. Capital of Texas Hwy.
Suite 350
Austin, Texas 78731-1169
(512) 418-2358
Fax: (512) 340-0604
www.mgsbpllc.com

Board of Directors
Paloma Lake Municipal Utility District No. 2
Williamson County, Texas

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of Paloma Lake Municipal Utility District No. 2 (the "District"), as of and for the year ended September 30, 2009, which collectively comprise the District's basic financial statements as listed in the preceding table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

McCall Gibson Swedlund Barfoot PLLC

McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants

February 10, 2010

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009

In accordance with Governmental Accounting Standards Board Statement 34 ("GASB 34"), the management of Paloma Lake Municipal Utility 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, 2009. Since this information is designed to focus on current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the District's financial statements that follow.

FINANCIAL HIGHLIGHTS

- *General Fund:* At the end of the current fiscal year, the undesignated fund balance was \$21,106. Current year net revenues were \$66,010. The General Fund recorded a prior period adjustment to increase the prior year fund deficit by \$13,769 for unbilled sewer charges. General fund revenues increased from \$92,452 in the previous fiscal year to \$290,462 in the current fiscal year due to an increase in the District's assessed valuation.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenue net of expenses of \$66,010. Net assets increased from a deficit of \$31,135 to a balance of \$21,106.

OVERVIEW OF THE DISTRICT

The District, a political subdivision of the State of Texas, was created by order of the Texas Commission on Environmental Quality effective September 12, 2006 and confirmed pursuant to an election held within the District on May 12, 2007. The District was created for the purpose of providing, operating, and maintaining facilities to control storm water, distribute potable water, collect and treat wastewater and providing and operating park and recreational facilities and operates pursuant to Chapter 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 of the Texas Constitution, both as amended.

The District encompasses approximately 340 acres of land and is located in northeast Williamson County and lies approximately six miles northeast of downtown Round Rock, TX, five miles southeast of the City of Georgetown, TX, five miles east of the Interstate Highway 35 corridor and less than two miles north of US Highway 79. The District is contained entirely within the extraterritorial jurisdiction of Round Rock.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

USING THIS ANNUAL REPORT

This annual report consists of five parts:

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

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

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Statement of Net Assets:

The following table reflects the condensed Statement of Net Assets:

Summary Statement of Net Assets

	Governmental Activities	
	2009	2008
Current and other assets	\$ 133,739	\$ 93,245
Capital and non-current assets	1,122	-
Total Assets	134,861	93,245
Current Liabilities	113,755	124,380
Long-term Liabilities	-	-
Total Liabilities	113,755	124,380
Invested in Capital Assets		
net of related debt	-	-
Restricted	-	-
Unrestricted	21,106	(31,135)
Total Net Assets	\$ 21,106	\$ (31,135)

The District's combined net assets increased by \$52,241 to \$21,106 from the previous year deficit balance of \$31,135. The District's unrestricted net assets, which can be used to finance day to day operations, totaled \$21,106.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

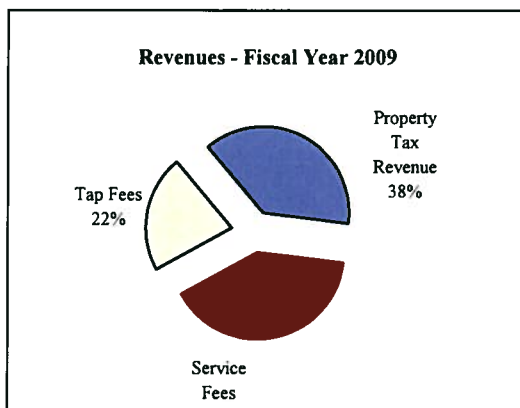
Revenues and Expenses:

Summary Statement of Activities

	Governmental Activities	
	2009	2008
Property taxes	\$ 108,984	\$ 17,420
Service account revenues	116,026	59,987
Tap fees and inspections	64,800	15,020
Other	652	25
Total Revenues	290,462	92,452
Water, wastewater and garbage	89,464	26,891
Management services	12,671	7,131
Repairs and maintenance	6,124	12,456
Professional fees	84,657	72,412
Other	31,536	19,662
Total Expenses	224,452	138,552
Change in Net Assets	66,010	(46,100)
Beginning Net Assets	(31,135)	14,965
Prior Period Adjustment	(13,769)	-
Ending Net Assets	\$ 21,106	\$ (31,135)

Revenues were \$290,462 for the fiscal year ended September 30, 2009 while expenses were \$224,452. Net assets increased \$52,241.

Property tax revenue totaled \$108,984. 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 for fiscal year 2009 was approximately \$10 million compared to \$2 million for fiscal year 2008. The tax rate is set after reviewing the operating and debt service requirements and appraised values determined by Williamson County. The ad valorem tax rate for fiscal year 2009 was \$0.95 per \$100 assessed valuation. This is the same as the District's prior year tax rate. The District's primary revenue source is property taxes, service account revenues and system connection fees.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

ANALYSIS OF GOVERNMENTAL FUNDS

Governmental Funds by Year

	2009	2008
Cash on deposit	\$ 100,739	\$ 55,013
Cash equivalent investments	374	-
Receivables	33,748	38,232
Total Assets	\$ 134,861	\$ 93,245
Accounts payable	\$ 80,155	\$ 64,654
Due to developer	20,500	15,500
Other	14,222	44,226
Total Liabilities	114,877	124,380
Reserved	(1,122)	-
Unreserved	21,106	(31,135)
Total Fund Balance	19,984	(31,135)
Total Liabilities and Fund Balances	\$ 134,861	\$ 93,245

For the fiscal year ended September 30, 2009, the District's governmental funds reflect a combined fund balance of \$19,984.

This fund balance includes a \$66,010 increase in the General Fund net revenues due primarily to an increase in the District's assessed valuation. Additionally, the General Fund recorded a prior period adjustment of \$13,769 for unbilled sewer charges.

The Capital Project Fund purchases the District's infrastructure. The Capital Projects Fund had a \$1,122 decrease in fund balance for fiscal year 2009 due to costs associated with an anticipated future bond sale. During the fiscal year, the District did not purchase any water, wastewater, or drainage assets.

BUDGETARY HIGHLIGHTS

The *General Fund* pays for daily operating costs. September 10, 2008 and later amended on June 10, 2009, the Board of Directors approved a budget including revenues of \$222,764 as compared to expenditures of \$202,115. When comparing actual to budget, the District had a positive variance of \$45,361. More detailed information about the District's budgetary comparison is presented in the *Required Supplemental Information*.

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2009**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The property tax assessed value and taxable value for 2009 is approximately \$17 million. The fiscal year 2010 tax rate is \$0.95 on each \$100 of taxable value. All of the property tax will fund general fund costs.

The adopted budget for fiscal year 2010 projects a general fund balance increase of \$57,093.

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, L.L.P., 100 Congress Avenue, Suite 1300, Austin, Texas 78701.

BASIC FINANCIAL STATEMENTS

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Net Assets
ASSETS						
Cash and cash equivalents						
Cash on deposit	\$ 100,739	\$ -	\$ -	\$ 100,739	\$ -	\$ 100,739
Cash equivalent investments	374	-	-	374	-	374
Receivables-						
Service, net of allowance of doubtful accounts of \$-0-	32,626	-	-	32,626	-	32,626
Taxes	-	-	-	-	-	-
Interfund receivable	1,122	-	-	1,122	(1,122)	-
Other	-	-	-	-	-	-
Deferred charges, net of accumulated amortization	-	-	-	-	1,122	1,122
Capital assets, net of accumulated depreciation -						
Land	-	-	-	-	-	-
Water/Wastewater/Drainage System	-	-	-	-	-	-
TOTAL ASSETS	\$ 134,861	\$ -	\$ -	\$ 134,861	-	134,861
LIABILITIES						
Accounts payable	\$ 29,737	\$ -	\$ -	\$ 29,737	-	29,737
Capital recovery fees payable	50,418	-	-	50,418	-	50,418
Due to developer	20,500	-	-	20,500	-	20,500
Deferred revenue - taxes	-	-	-	-	-	-
Refundable deposits	13,100	-	-	13,100	-	13,100
Interfund payable	-	-	1,122	1,122	(1,122)	-
TOTAL LIABILITIES	113,755	-	1,122	114,877	(1,122)	113,755
FUND BALANCE / NET ASSETS						
Fund balances:						
Reserved for -						
Debt Service	-	-	-	-	-	-
Capital Projects	-	-	(1,122)	(1,122)	1,122	-
Unreserved	21,106	-	-	21,106	(21,106)	-
TOTAL FUND BALANCES	21,106	-	(1,122)	19,984	(19,984)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 134,861	\$ -	\$ -	\$ 134,861		
Net assets:						
Invested in capital assets, net of related debt					-	-
Restricted for debt service					-	-
Restricted for capital projects					-	-
Unrestricted					21,106	21,106
TOTAL NET ASSETS					\$ 21,106	\$ 21,106

The accompanying notes are an integral part of this statement.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - wide Statement of Activities
REVENUES:						
Water and wastewater service, including penalties	\$ 116,026	\$ -	\$ -	\$ 116,026	\$ -	\$ 116,026
Property taxes, including penalties	108,984	-	-	108,984	-	108,984
Tap fees and inspections	64,800	-	-	64,800	-	64,800
Other	652	-	-	652	-	652
TOTAL REVENUES	290,462	-	-	290,462	-	290,462
EXPENDITURES / EXPENSES:						
Current:						
Water and wastewater purchases	82,663	-	-	82,663	-	82,663
Disposal service	6,801	-	-	6,801	-	6,801
Repairs and maintenance	6,124	-	-	6,124	-	6,124
Inspection fees	14,963	-	-	14,963	-	14,963
Security lights	4,657	-	-	4,657	-	4,657
Director fees, including payroll taxes	7,266	-	-	7,266	-	7,266
Legal fees	46,214	-	-	46,214	-	46,214
Engineering fees	10,882	-	-	10,882	-	10,882
Management fees	12,671	-	-	12,671	-	12,671
Bookkeeping fees	17,797	-	-	17,797	-	17,797
Audit fees	8,500	-	-	8,500	-	8,500
Financial advisor fees	1,264	-	-	1,264	-	1,264
Insurance	1,399	-	-	1,399	-	1,399
Tax appraisal/collection fees	822	-	-	822	-	822
Other	2,429	-	-	2,429	-	2,429
Capital outlay	-	-	1,122	1,122	(1,122)	-
Depreciation	-	-	-	-	-	-
TOTAL EXPENDITURES / EXPENSES	224,452	-	1,122	225,574	(1,122)	224,452
NET CHANGE IN FUND BALANCES	66,010	-	(1,122)	64,888	(64,888)	-
CHANGE IN NET ASSETS					66,010	66,010
FUND BALANCE / NET ASSETS:						
Beginning of the year	(31,135)	-	-	(31,135)	-	(31,135)
Prior period adjustment	(13,769)	-	-	(13,769)	-	(13,769)
End of the year	<u>\$ 21,106</u>	<u>\$ -</u>	<u>\$ (1,122)</u>	<u>\$ 19,984</u>	<u>\$ 1,122</u>	<u>\$ 21,106</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE BASIC
FINANCIAL STATEMENTS**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity - The District was created, organized and established on August 10, 2006, by the Texas Commission on Environmental Quality (formerly the Texas Natural Resource Conservation Commission) pursuant to the provisions of Chapters 49 and 54 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 governs the District which has been elected by District residents or appointed by the Board of Directors. The District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined in Governmental Accounting Standards Board Statement No. 14 which are included in the District's reporting entity.

Basis of Presentation - Government-wide and Fund Financial Statements - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. Statement No. 34 also requires as supplementary information Management's Discussion and Analysis, which includes an analytical overview of the District's financial activities. In addition a budgetary comparison statement is presented that compares the adopted and amended General Fund budget with actual results.

- **Government-wide Statements:**

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

- **Government-wide Statements (continued) -**

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

- **Fund Financial Statements:**

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

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

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

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Basis of Accounting

• **Governmental Funds**

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

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

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

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

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

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES (continued) –

Budgets and Budgetary Accounting – A budget was adopted on September 10, 2008 and finally amended on June 10, 2009, for the General Fund on a basis consistent with generally accepted accounting principles. The District's Board of Directors utilizes the budget as a management tool for planning and cost control purposes. All annual appropriations lapse at fiscal year end.

Pensions - The District has not established a pension plan as the District does not have employees. The Internal Revenue Service has determined that Directors are considered to be “employees” for federal payroll tax purposes only.

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

Capital Assets – Capital assets, which include Administrative Facilities and Equipment, Common and Recreation Areas, Water Production/Distribution System, Wastewater Collection System, Water Quality Ponds and Organizational Costs are reported in the government-wide column in the Statement of Net Assets. Public domain ("infrastructure") capital assets including water, wastewater and drainage systems, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated fair market value at the time received. Interest incurred during construction of capital facilities is not capitalized.

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

<u>Asset</u>	<u>Years</u>
Common and Recreation Areas	5 - 30
Water Production/Distribution System	10 - 50
Wastewater Collection System	5 - 50
Organizational Costs	5

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.

Fund Balance/Net Assets – Fund balance and net assets represent the difference between assets and liabilities. Fund balance reservations represent those portions of fund equity legally segregated for a specific future use. Designated fund balances represent tentative plans for future uses of financial resources. Unreserved fund balances represent fund equity available for use in future periods.

Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

2. RECONCILIATION OF THE GOVERNMENTAL FUNDS -

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

Fund balances - total governmental funds	\$	19,984
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds - Deferred charges, net of accumulated amortization		1,122
Net assets of governmental activities	<u>\$</u>	<u>21,106</u>

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

Changes in Fund Balances - Governmental Funds Amounts reported for governmental activities in the Statement of Activities are different because: Governmental funds report - Capital expenditures in period purchased	\$	64,888
		1,122
Change in Net assets of governmental activities	<u>\$</u>	<u>66,010</u>

3. CASH AND INVESTMENTS

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

Cash - At September 30, 2009, the carrying amount of the District's deposits was \$ 100,739 and the bank balance was \$ 151,097. The bank balance was covered by federal depository insurance and other pledged collateral.

Investments –

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

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

3. CASH AND INVESTMENTS (continued) -

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

At September 30, 2009, the District held the following investments:

Investment	Fair Market Value at 9/30/2009	Governmental Fund			Investment Rating	
		General	Debt Service	Capital Projects	Rating	Rating Agency
		Unrestricted	Restricted (1)	Restricted (2)		
Texpool	\$ 374	\$ 374	\$ -	\$ -	AAAm	Standard & Poors
	<u>\$ 374</u>	<u>\$ 374</u>	<u>\$ -</u>	<u>\$ -</u>		

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

(2) Restricted for Purchase of Capital Assets.

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the state investment pool. The Comptroller maintains oversight of all operations of the pool.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

3. CASH AND INVESTMENTS (continued) -

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, 2009, the District did not own any investments in individual securities.

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The government’s investment policy requires that the District’s deposits be fully insured by FDIC insurance or collateralized with Obligations of the United States or its agencies and instrumentalities. As of September 30, 2009, the District’s bank deposits were covered as follows:

	Balance
FDIC insured deposits	\$ 151,097
Collateralized deposits:	
Collateral held by pledging bank's trust department in the District's name	-
Collateral held by pledging bank's trust department, not in the District's name	-
Uninsured and uncollateralized deposits	-
Total deposits	\$ 151,097

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 Williamson Central Appraisal District establishes appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Collector bills and collects the District's property taxes. The Board of Directors set current tax rates on September 10, 2008.

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 2008 tax roll. The tax rate, based on total taxable assessed valuation of \$11,443,557 was \$0.95 on each \$100 valuation and was allocated to the General Fund. The maximum allowable maintenance tax of \$1.00 was established by the voters at an election held on May 12, 2007.

Property taxes receivable were fully collected at September 30, 2009.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

5. BONDED DEBT

There were no bonds payable at September 30, 2009. Bonds authorized but not issued as of September 30, 2009, are as follows:

<u>Type</u>	<u>Amount</u>
Unlimited Tax Bonds	\$ 31,120,000
Refunding Bonds	\$ 46,680,000
Park and Recreational Facilities	\$ 7,040,000

6. IMPACT FEES

Impact fees as assessed by the City of Round Rock (the "City") are collected on tap connections for each new residential water and wastewater connection as required under the District's consent agreement with the City. Collected fees are submitted to the City of Round Rock by the 15th day of the month following collection. The District collected \$268,896 in impact fees during the year and remitted \$218,478 as of September 30, 2009. The remaining balance of \$50,418 was remitted to the City on November 11, 2009.

7. COMMITMENTS AND CONTINGENCIES

The District has entered into various agreements in the ordinary conduct of business including a reimbursement agreement to purchase existing utilities facilities. As approved by the Texas Commission on Environmental Quality and the Board of Directors, the District will sell bonds to the general public for the purpose of reimbursing qualified construction costs.

The developers of the land within the District have incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. 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, or from operating revenue. Voters within the District have approved the issuance of \$38,160,000 of bonds to fund cost of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District Engineer's reports. As of September 30, 2009, the District has not issued any debt.

8. FUND DEFICIT

The Capital Projects Fund had a fund deficit of \$1,122 at September 30, 2009. This deficit represents expenditures for a future bond issue that will be reimbursed with bond proceeds.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

9. 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.

10. INTERCONNECT AGREEMENT

The District and Paloma Lake Municipal Utility District No. 1 (District No. 1) have entered into a Wholesale Water and Wastewater Agreement with the City of Round Rock, Texas for the purchase of a wholesale potable water supply. The District and District No. 1 are located adjacent to each other and are being developed under a common development scheme as a single master-planned community. The water utility systems have been designed and constructed as an interconnected and looped water system which will receive water supply through multiple metered points of delivery.

Each District will be responsible for the capital costs of two of the Master Meters and one of the interconnects, as well as all operations and maintenance relating to its Master Meters and Interconnect. Water costs between the District and District No. 1 are subject to allocation based upon the total amount of water billed to customers within each of the Districts, the total estimated amounts of any unmetered water utilized by each District and the total amount of unaccounted for water in accordance with the Interconnect Agreement dated effective May 14, 2008 between the District and District No. 1.

11. PRIOR PERIOD ADJUSTMENT

The September 30, 2008 General Fund balance has been adjusted by \$13,769 to recognize wastewater charges billed by the City of Round Rock in the appropriate fiscal year.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
NOTES TO THE BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2009

12. PENDING BOND APPLICATION

The District has a bond application that has been submitted to the Texas Commission on Environmental Quality for \$1,775,000 at fiscal year end. As of this date, the District anticipates selling these bonds in March, 2010.

**REQUIRED SUPPLEMENTAL
INFORMATION**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
SEPTEMBER 30, 2009

	<u>Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Variance Positive (Negative)</u>
REVENUES:				
Water and wastewater service, including penalties	\$ 116,026	\$ 53,750	\$ 68,433	\$ 47,593
Property taxes, including penalties	108,984	88,859	108,976	8
Tap fees and inspections	64,800	46,800	45,150	19,650
Other	652	-	205	447
TOTAL REVENUES	<u>290,462</u>	<u>189,409</u>	<u>222,764</u>	<u>67,698</u>
EXPENDITURES/EXPENSES:				
Current:				
Water and wastewater purchases	82,663	7,945	55,104	(27,559)
Disposal service	6,801	3,500	6,077	(724)
Repairs and maintenance	6,124	51,500	14,153	8,029
Inspection fees	14,963	13,000	10,430	(4,533)
Security lights	4,657	4,500	4,143	(514)
Director fees, including payroll taxes	7,266	8,080	7,747	481
Legal fees	46,214	43,800	45,426	(788)
Engineering fees	10,882	14,400	12,544	1,662
Management fees	12,671	12,000	12,246	(425)
Bookkeeping fees	17,797	6,500	17,798	1
Audit fees	8,500	7,500	8,500	-
Financial advisor fees	1,264	1,500	1,264	-
Insurance	1,399	1,600	1,659	260
Tax appraisal/collection fees	822	500	753	(69)
Other	2,429	5,050	4,271	1,842
Capital outlay	-	-	-	-
TOTAL EXPENDITURES / EXPENSES	<u>224,452</u>	<u>181,375</u>	<u>202,115</u>	<u>(22,337)</u>
NET CHANGE IN FUND BALANCE	66,010	<u>\$ 8,034</u>	<u>\$ 20,649</u>	<u>\$ 45,361</u>
FUND BALANCE / NET ASSETS:				
Beginning of the year	(31,135)			
Prior period adjustment	(13,769)			
End of the year	<u>\$ 21,106</u>			

The accompanying notes are an integral part of this statement.

**TEXAS SUPPLEMENTAL
INFORMATION**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-1. SERVICES AND RATES
SEPTEMBER 30, 2009

1. Services Provided by the District during the Fiscal Year:

- | | | |
|--|---|--|
| <input checked="" type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input checked="" type="checkbox"/> Drainage |
| <input checked="" 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 checked="" type="checkbox"/> Solid Waste/Garbage | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Roads |
| <input checked="" 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:	\$ 35.00	-	N	\$ 3.00	0 to 10,000
				\$ 3.50	10,001 to 30,000
				\$ 3.95	30,001 to Unlimited
WASTEWATER:	\$ -	-	N	\$ 3.77	0 to Unlimited
SURCHARGE:	\$ -	-	-		

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 65.00 Wastewater \$ 37.70

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC's
Unmetered	10.0	0.0	1.0	0.0
< 3/4"	85.0	85.0	1.0	85.0
1"	0.0	0.0	2.5	0.0
1 1/2"	0.0	0.0	5.0	0.0
2"	2.0	2.0	8.0	16.0
3"	2.0	2.0	15.0	30.0
4"	0.0	0.0	25.0	0.0
6"	0.0	0.0	50.0	0.0
8"	0.0	0.0	80.0	0.0
10"	0.0	0.0	115.0	0.0
Total Water	99.0	89.0		131.0
Total Wastewater	85.0	85.0	1.0	85.0

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

Gallons pumped into system: 22,363
Gallons billed to customers: 23,057

Water Accountability Ratio (Gallons billed / Gallons Pumped) 103.1%

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: Williamson

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: Round Rock

Are Board members appointed by an office outside the district?

Yes No

If Yes, by whom? _____

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-2. GENERAL FUND EXPENDITURES
SEPTEMBER 30, 2009

Personnel Expenditures (including benefits)	\$	-
Professional Fees:		
Auditing		8,500
Legal		46,214
Engineering		10,882
Financial Advisor		1,264
Purchased Services for Resale:		
Bulk Water and Wastewater Purchases		82,663
Contracted Services:		
Bookkeeping		17,797
General Manager		12,671
Appraisal District		-
Tax Collector		822
Other Contracted Services		-
Utilities		4,657
Repairs and Maintenance		6,124
Administrative Expenditures:		
Directors' Fees		7,266
Office Supplies		-
Insurance		1,399
Other Administrative Expenditures		2,429
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		-
Tap Connection Expenditures		14,963
Solid Waste Disposal		6,801
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		-
TOTAL EXPENDITURES	\$	224,452

Number of persons employed by the District:

Full-Time

Part-Time

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-3. TEMPORARY INVESTMENTS
SEPTEMBER 30, 2009

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
General Fund -					
TexPool	7923900001	0.2303%	N/A	\$ 374	\$ -
Total				374	-
Total - All Funds				\$ 374	\$ -

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-4. TAXES LEVIED AND RECEIVABLE
SEPTEMBER 30, 2009

	Maintenance Taxes	Debt Service Taxes	
Taxes Receivable, Beginning of Year	\$ 39	\$ -	
2008 Original Tax Levy	108,714	-	
Add: Tax adjustments	-	-	
Add: Rollbacks	-	-	
Total to be accounted for	108,753	-	
Tax collections:			
Current year	108,714	-	
Prior years	39	-	
Total collections	108,753	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Taxes Receivable, By Years			
2006	\$ -	\$ -	
2007	-	-	
2008	-	-	
Taxes Receivable, End of Year	\$ -	\$ -	
Property Valuations:	2008	2007	2006
Land and improvements	\$ 11,443,557	\$ 1,833,693	\$ -
Total Property Valuations	\$ 11,443,557	\$ 1,833,693	\$ - (1)
Tax Rates per \$100 Valuation:			
Debt Service tax rates	\$ -	\$ -	\$ -
Maintenance tax rates	0.9500	0.9500	-
Total Tax Rates per \$100 Valuation:	\$ 0.9500	\$ 0.9500	\$ - (1)
Original Tax Levy	\$ 108,714	\$ 17,420	\$ - (1)
Percent of Taxes Collected to Taxes Levied **	100.0%	100.0%	N/A

Maximum Tax Rate Approved by Voters: \$ 1.00 on 5/17/2007.

(1) The District did not levy taxes in 2006.

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

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS
SEPTEMBER 30, 2009

The District had no long term-debt outstanding at September 30, 2009.

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-6. CHANGES IN LONG-TERM BONDED DEBT
SEPTEMBER 30, 2009

	Bond Issue	Total	
Interest Rate	N/A		
Dates Interest Payable	N/A		
Maturity Dates	N/A		
Bonds Outstanding at Beginning of Current Fiscal Year	\$ -	\$ -	
Bonds Sold During the Current Fiscal Year	-	-	
Retirements During the Current Fiscal Year:			
Principal	-	-	
Bonds Outstanding at End of Current Fiscal Year	\$ -	\$ -	
Interest Paid During the Current Fiscal Year	\$ -	\$ -	
Paying Agent's Name & Address:	N/A		
Bond Authority:	Tax Bonds*	Refunding Bonds	Park and Recreational Facilities
Amount Authorized by Voters	\$ 31,120,000	\$ 46,680,000	\$ 7,040,000
Amount Issued	-	-	-
Remaining To Be Issued	\$ 31,120,000	\$ 46,680,000	\$ 7,040,000

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

Debt Service Fund Cash and Temporary Investments balances as of September 30, 2009: \$ -

Average Annual Debt Service Payment (Principal & Interest) for the remaining term of all debt: \$ -

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND AND DEBT SERVICE FUND - TWO YEARS
SEPTEMBER 30, 2009

	Amounts		Percentage of Fund Total Revenues	
	2009	2008	2009	2008
GENERAL FUND REVENUES -				
Water and wastewater service, including penalties	\$ 116,026	\$ 59,987	39.9%	64.9%
Property taxes, including penalties	108,984	17,420	37.5%	18.8%
Tap fees and inspections	64,800	15,020	22.3%	16.2%
Other	652	25	0.2%	0.1%
TOTAL GENERAL FUND REVENUES	290,462	92,452	100.0%	100.0%
GENERAL FUND EXPENDITURES -				
Current:				
Water and wastewater purchases	82,663	25,756	28.5%	27.9%
Disposal service	6,801	1,135	2.3%	1.2%
Repairs and maintenance	6,124	12,456	2.1%	13.5%
Inspection fees	14,963	7,385	5.2%	8.0%
Security lights	4,657	1,682	1.6%	1.8%
Director fees, including payroll taxes	7,266	7,266	2.5%	7.9%
Legal fees	46,214	50,850	15.9%	55.0%
Engineering fees	10,882	4,935	3.7%	5.3%
Management fees	12,671	7,131	4.4%	7.7%
Bookkeeping fees	17,797	8,915	6.1%	9.6%
Audit fees	8,500	6,500	2.9%	7.0%
Financial advisor fees	1,264	1,212	0.4%	1.3%
Insurance	1,399	1,414	0.5%	1.5%
Tax appraisal/collection fees	822	444	0.3%	0.5%
Other	2,429	1,471	0.8%	1.6%
Capital Outlay	-	-	-	-
TOTAL GENERAL FUND EXPENDITURES	224,452	138,552	77.2%	149.8%
EXCESS (DEFICIENCY) OF GENERAL FUND REVENUES OVER EXPENDITURES	\$ 66,010	\$ (46,100)	22.8%	(49.8)%
DEBT SERVICE FUND REVENUES -				
Property taxes, including penalties	\$ -	\$ -	-	-
Interest	-	-	-	-
Other	-	-	-	-
TOTAL DEBT SERVICE FUND REVENUES	-	-	-	-
DEBT SERVICE FUND EXPENDITURES -				
Tax appraisal/collection	-	-	-	-
Financial advisor fees	-	-	-	-
Bond principal	-	-	-	-
Bond interest	-	-	-	-
Fiscal agent fees and other	-	-	-	-
TOTAL DEBT SERVICE FUND EXPENDITURES	-	-	-	-
EXCESS (DEFICIENCY) OF DEBT SERVICE FUND REVENUES OVER EXPENDITURES	\$ -	\$ -	-	-
TOTAL ACTIVE RETAIL WATER CONNECTIONS	89	39		
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	85	38		

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2009

Complete District Mailing Address:	<u>100 Congress Ave., Suite 1300, Austin, TX 78701</u>
District Business Telephone Number:	<u>(512) 435-2300</u>
Submission Date of the most recent District Registration Form TWC Sections 36.054 & 49.054):	<u>6/15/2009</u>
Limits on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution TWC Section 49.060)	<u>\$7,200</u>

Name and Address:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimbursements	Title at Year End
		9/30/2009	9/30/2009	
<i>Board Members:</i>				
Carter Breed	(Elected) 05/12/2007 - 05/08/2010	\$ 1,500	\$ -	President
Meagan Banse	(Elected) 05/11/2008 - 05/12/2012	\$ 1,350	\$ -	Vice-President
Christopher Blackburn	(Elected) 05/11/2008 - 05/12/2012	\$ 1,350	\$ -	Secretary
James Knight	(Elected) 05/12/2007 - 05/08/2010	\$ 1,200	\$ -	Assistant Secretary
Kari Johnson	(Appointed) 6/10/2009 - 05/08/2010	\$ 450	\$ -	Director
<i>Consultants:</i>				
SWWC Services, Inc.	5/21/2007	\$ 21,861	\$ -	General Manager
Armbrust & Brown, L.L.P.	01/31/2007	\$ 47,053	\$ -	Attorney
Jones-Heroy Consulting, Inc.	01/31/2007	\$ 12,112	\$ -	Engineer
Bott & Douthitt, PLLC	3/1/2009	\$ 10,750	\$ 188	District Accountant
McCall Gibson Swedlund Barfoot PLLC	6/10/2009	\$ -	\$ -	Auditor
Southwest Securities	1/31/2007	\$ 1,264	\$ -	Financial Advisor
Pena Swayze & Co., L.L.P.	11/14/2007	\$ 7,500	\$ -	Prior Auditor
Williamson County Tax Collector	5/17/2007	\$ 36	\$ -	Tax Collector

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

**OTHER SUPPLEMENTAL
INFORMATION**

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
OSI-1. PRINCIPAL TAXPAYERS
SEPTEMBER 30, 2009

Taxpayer	Type of Property	Tax Roll Year		
		2009	2008	2007
Standard Pacific of Texas LP	N/A	\$ 7,970,203	\$ 6,712,486	\$ 1,683,750
Paloma Lake Development Inc.	N/A	1,118,293	-	127,479
Dolter, C. & S.	N/A	280,256	153,105	-
Martin, T. & D.	N/A	268,425	138,295	-
Jenkins, O.	N/A	266,017	174,448	-
Albrecht, S. & J.	N/A	260,344	-	-
Garza, E. & M.	N/A	257,470	-	-
Glennie, D. & J.	N/A	256,583	-	-
Hamby, J. & S.	N/A	250,745	-	-
McBurnett, K. & P.	N/A	240,982	230,044	-
Nelson, C.	N/A	-	1,483,299	21,359
Zubkoff, D. & J.	N/A	-	228,090	-
Hilton, R. & L.	N/A	-	192,024	-
Kendrick, T. & M.	N/A	-	148,064	-
Grad, T.	N/A	-	130,674	-
Paloma Lake Development Inc. & Et al	N/A	-	-	1,500
Total		\$ 11,169,318	\$ 9,590,529	\$ 1,834,088
Percent of Assessed Valuation		64.0%	97.3%	100.0%

PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
OSI-2. ASSESSED VALUE BY CLASSIFICATION
SEPTEMBER 30, 2009

Type of Property	Tax Roll Year					
	2009		2008		2007	
	Amount	%	Amount	%	Amount	%
Land - Homesite	\$ 1,793,450	10.3%	1,392,550	14.1%	-	-
Land - Non Homesite	4,615,201	26.4%	6,169,946	62.6%	1,803,930	98.4%
Land - Ag Market	4,419,678	25.3%	17,334	0.2%	29,958	1.6%
Improvements - Homesite	6,609,289	37.8%	2,262,288	23.0%	-	-
Improvements - Non Homesite	200	-	200	-	200	-
Personal Property	28,265	0.2%	14,800	0.2%	-	-
Exempt Property	(2,154)	-	(300)	-	-	-
Total	\$ 17,463,929	100.0%	\$ 9,856,818	100.0%	\$ 1,834,088	100.0%

APPENDIX B
Unaudited Financial Statement of Paloma Lake Development

Paloma Lake Development, Inc. (“Paloma Lake Development”) has delivered their financial information included in this APPENDIX B (the “Financial Information”) to the District concerning Paloma Lake Development for publication in connection with the District’s offer and sale of the Bonds. The Financial Information has been included herein solely as additional information concerning Paloma Lake Development and its financial condition and capabilities. Such Financial Information is relevant, among other reasons, to the ability of Paloma Lake Development to continue developing its property within the District and to pay ad valorem taxes thereon. However, Paloma Lake Development is not responsible for, liable for and has not made any commitment for the payment of the Bonds or any other obligations to the District, and the inclusion of the Financial Information herein should not be construed as an implication to that effect. The Developer is only responsible to pay taxes to the District in respect of property that it owns. See “TAX DATA - Principal Taxpayers” in the Official Statement. Paloma Lake Development has no legal commitment to continue development of its land, within the District and Paloma Lake Development may sell or otherwise dispose of its property within the District at any time. In addition, the financial condition of Paloma Lake Development is subject to change. The District cautions that the Financial Information should not be construed or interpreted as an indication of the investment security of the Bonds or of any other securities proposed to be issued by the District.

Paloma Lake Development has represented to the District that the Financial Information pertaining to Paloma Lake Development was prepared from its books and records in accordance with generally accepted accounting principles (except where otherwise noted therein), is a fair and accurate presentation of the items presented and of the financial condition of Paloma Lake Development as of the dates stated, and does not fail to disclose any material fact necessary to make such Financial Information not misleading, and that there has not been any material adverse change in the financial condition of Paloma Lake Development since the dates at which the financial information is presented. Additionally, Paloma Lake Development has agreed to inform the District prior to delivery of the Bonds of any material adverse changes in its financial condition since the dates of the Financial Information contained herein.

Paloma Lake Development, Inc.
 Balance Sheet
 As of December 31, 2009

Dec 31, 09

ASSETS

Current Assets

Checking/Savings

00100 · ABC Bank CKG 3437	22,467.56
00102 · ABC Bank MM Acct	217,678.45
00105 · Comerica CKG	41,857.78
Total Checking/Savings	282,003.79

Accounts Receivable

1200 · Accounts Receivable	1,503.68
Total Accounts Receivable	1,503.68

Other Current Assets

1201 · Due from Standard Pacific	(683.63)
1220 · Due to/from Title Co.	770.00
1250 · Due from Paloma Lake MUD, LLC	200,000.00
1300 · School Site Escrow	400,000.00
Total Other Current Assets	600,086.37

Total Current Assets 883,593.84

Other Assets

10000 · Paloma Lake Overall	20,483,034.69
11000 · Sections 6 and 7	1,388,008.41
15000 · Investments	1,096,537.95
18000 · Phase 18	238,605.09
20000 · Paloma Lake MUD #1	160,379.61
23000 · Paloma Lake MUD #2	106,584.48
30000 · Offsite Water/Wastewater	3,619,152.32
34000 · CR 122 & CR 110 Improvements	2,199,122.65
35000 · Paloma Lake Blvd.	(178,308.01)
40000 · Entryway	910,084.54
50000 · Amenity Center	(158,962.86)
60000 · Paloma Lake, Section 1	889,339.59
70000 · Paloma Lake, Section 2	738,157.55
Total Other Assets	31,491,736.01

TOTAL ASSETS 32,375,329.85

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Other Current Liabilities

2500 · Builder Earnest	276,000.00
2810 · Interest Payable - PLP Note #1	642,563.00
2820 · Interest Payable - PLP Note #2	688,094.00
2830 · Interest Payable - PLP Note #3	1,341,432.00
Total Other Current Liabilities	2,948,089.00

Total Current Liabilities 2,948,089.00

Long Term Liabilities

2700 · N/P - Paloma L.P. #1	3,546,397.00
2710 · N/P - Paloma L.P. #2	3,351,357.09
2720 · N/P - Paloma L.P. #3	8,700,000.00
2730 · Deferred Credit - Intercompany Sale	3,000,000.00
2900 · N/P - Comerica Bank	9,824,287.39
Total Long Term Liabilities	28,422,041.48

Total Liabilities 31,370,130.48

Equity

Shareholders' Equity 1,005,199.37

TOTAL LIABILITIES & EQUITY 32,375,329.85

Paloma Lake Development, Inc.
Profit & Loss
January through December 2009

Jan - Dec 09

Income	
80000 · Lot Sales	410,000.00
80100 · School Site Sale	1,023,058.00
80200 · Builder Bonus Revenue	20,642.39
80500 · Marketing Fees	7,450.00
80600 · Fence Fees	1,485.00
80700 · Retained Deposit	886,000.00
81000 · Interest Income	4,917.87
82000 · Lease Income	10.00
Total Income	2,353,563.26
Expense	
84000 · Cost of Sales	783,249.40
84100 · Cost of School Site Sale	1,384,178.80
84200 · Sales Commission	41,499.00
85001 · Bank Charges	61.23
85100 · Loss from Paloma Lake MUD LLC	103,462.05
Total Expense	2,312,450.48
Net Income	41,112.78

APPENDIX C
Form of Bond Counsel Opinion

LAW OFFICES

M^cCALL, 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.]

**PALOMA LAKE MUNICIPAL UTILITY DISTRICT NO. 2
UNLIMITED TAX BONDS, SERIES 2010
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$1,775,000**

AS BOND COUNSEL FOR PARKSIDE AT MAYFIELD RANCH MUNICIPAL UTILITY DISTRICT (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 adopted by the board of directors of the District on March 2, 2010 (the "Order").

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the District, relating to the issuance of the Bonds, 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 which we found to be in proper form and duly executed.

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 may be limited by laws applicable to the District relating to bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted related to affecting creditors' rights generally or by general principles 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.

IT IS FURTHER OUR OPINION, that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) is not includable in an owner's alternative minimum taxable income under section 55 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 County 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.

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. 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 the District 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,