

(f) The Annual Payment set forth in this section shall be considered the Basic Charge for service hereunder, and each Member City shall pay a surcharge for excess BOD and/or SS as provided in Section 4.02, and for excessive discharge in the manner set forth in Section 3.04(c).

(g) The Operation and Maintenance Component of the Annual Requirement allocable to such Member City shall be determined finally by the contributing flow and/or the Direct Cost of each Member City, as provided above. However, notwithstanding any other provisions of this contract to the contrary, the Bond Service Component of the Annual Requirement shall be allocated to each Member City, including each Additional Member City, and shall be computed and paid during each Fiscal Year as part of its Annual Payment and Adjusted Annual Payment, either (1) on the basis of the amount of such Member City's contributing flow into the System or (2) its Direct Cost during any such Fiscal Year when the provisions of this contract relating to Direct Cost are applicable and in effect, or (3) on the basis of the amount of such Member City's contributing flow into the System during the Fiscal Year in which such Member City's contributing flow into the System was the greatest, or (4) as to Richardson and each subsequent Additional Member City, on the basis of the amount of any minimum flows for which it has agreed to pay in its System Contract with the District, whichever of the foregoing amounts (1), (2), (3), or (4) is the greatest; provided that each Member City is entitled to receive, if and when available, any credit provided for herein during any Fiscal Year when the provisions of this contract relating to Direct Cost are applicable and in effect. It is the intention hereof that the Bond Service Component allocable to each Member City and to be paid by each Member City shall be computed for each Fiscal Year in such manner that no reduction will be allowed to a Member City because the amount of its actual contributing flow to the System is reduced below a previous high, or because the amount of its actual contributing flow is less than the amount of any minimum flow for which it has agreed to pay, subject to the foregoing provisions relating to Direct Cost.

(h) The facilities and services of the System to be provided to Prosper pursuant to this contract are and will be essential and necessary to the operation of Prosper's combined waterworks and sanitary sewer system, and all payments to be made hereunder by Prosper will constitute reasonable and necessary "operating expenses" of Prosper's combined waterworks and sanitary sewer system, within the meaning of Section 30.030, Texas Water Code and Section 1502.056, Texas Government Code (formerly, Vernon's Article 1113) and the provisions of all ordinances authorizing the issuance of all waterworks and sanitary sewer system revenue bond issues of Prosper, with the effect that Prosper's obligation to make payments from its waterworks and sanitary sewer system revenues under this contract shall have priority over its obligations to make payments of the principal of and interest on any and all of its waterworks and sanitary sewer system revenue bonds. Prosper agrees to fix and collect such rates and charges for waterworks and sanitary sewer system services to be supplied by its waterworks and sanitary sewer system as will make possible the prompt payment of all expenses of operating and maintaining its entire waterworks and sanitary sewer system, including all payments, obligations, and indemnities contracted hereunder, and the prompt payment of the principal of and interest on its bonds payable from the net revenues of its waterworks and sanitary sewer system. The District shall never have the right to demand payment of the amounts due hereunder from funds raised or to be raised from taxation by Prosper. Prosper's payments hereunder shall be made pursuant to the authority granted by Section 30.030 of the Texas Water Code, the

District Act, and Section 1502.056, Texas Government Code (formerly, Vernon's Article 1113). Recognizing the fact that Prosper urgently requires the facilities and services covered by this contract, and that such facilities and services are necessary for actual use and for stand-by purposes; and further recognizing that the District will use the payments received from Prosper hereunder to pay, secure, and finance the issuance of its Bonds, it is hereby agreed that Prosper shall be obligated unconditionally, and without offset or counterclaim, to make the payments designated as the "Bond Service Component" of the Annual Requirement, in the manner provided in this contract, regardless of whether or not the District actually provides such facilities and services, or whether or not Prosper actually receives or uses such facilities and services, and regardless of the validity or performance of the other parts of this or any other contract, and such "Bond Service Component" shall in all events be applied and used for providing debt service and other requirements of the Bonds, and the holders of the Bonds shall be entitled to rely on the foregoing agreement and representation, regardless of any other agreement between the District and Prosper. Prosper further agrees that it shall be obligated to make the payments designated as the "Operation and Maintenance Component" of the Annual Requirement as described in Section 5.02 of this contract, so long as the District is willing and able to provide the facilities and services contemplated hereunder to Prosper.

(i) On or before August 1 of each year District will furnish each Member City with a tentative budget and an estimated schedule of monthly payments to be made by such Member City for the ensuing Fiscal Year. On July 1 of each year, the District shall be in a position to furnish any Member City an estimate of the City's annual requirement. On or before October 1 of each year, District shall furnish such Member City with a finalized schedule of the monthly payments to be made by such Member City to the District for the ensuing Fiscal Year. Each Member City agrees that it will make such payments to the District on or before the twentieth (20th) day of each month of such Fiscal Year. If any Member City shall dispute the Annual Budget, and proceed as provided in Article VII, such Member City nevertheless promptly shall make the payment or payments determined by District, and if it is subsequently determined by agreement that such disputed payments made by such Member City should have been less, District shall promptly revise, reallocate, and readjust the charges among all Member Cities then being served by District in such manner that such Member City will recover its overpayment. In the event any Member City is assessed a surcharge for excess BOD and/or SS, District will bill such Member City for such surcharge on or before the tenth (10th) day of the month following the determination of the surcharge and such Member City shall pay such surcharge on or before the twentieth (20th) day of the month of receipt of any such bill. Any such surcharge collected by District shall be applied by District against the total cost of Operation and Maintenance Expense of the System.

(j) If any Member City's Annual Payment is redetermined as is herein provided, District will promptly furnish such Member City with an updated schedule of monthly payments reflecting such redetermination.

(k) All interest income earned by the investment of any Funds created pursuant to any Bond Resolution shall be credited towards the payment of the Bond Service Component and taken into account in determining the Annual Requirement; except that as to any Acquisition or Construction Fund created from any Bond proceeds all interest income earned by the investment thereof may, at the option of the District, be credited to such Acquisition or Construction Fund and

used for the System purposes for which the Bonds are issued, or be credited towards the payment of the Bond Service Component.

Section 5.04. USE OF OTHER REVENUES OF SYSTEM. (a) If the District receives any net income from the sale of treated Wastewater from the System prior to its discharge into a public stream of the State of Texas, the District will apply and credit said net income towards payments of Operation and Maintenance Expenses.

(b) Notwithstanding any other provisions of this contract, the District may provide any excess available capacity or service of the System to any person, as defined by the Texas Water Code, provided that such service does not interfere with or impair the rights of any Member City under this contract, and any such service shall in all events be subordinate and subject to such rights; and provided further that the District must charge for such service in amounts at least sufficient to pay all Operation and Maintenance Expense attributable thereto plus an amount which will produce an estimated reasonable allocation as determined by the District, plus an additional amount of not less than 20% of the foregoing to cover prior incurred costs, to be credited to the Bond Service Component of the Annual Requirement. The District is not authorized to issue Bonds, as defined in this contract, to provide the services of the System to any persons other than Member Cities.

ARTICLE VI

GENERAL PROVISIONS

Section 6.01. FORCE MAJEURE. In case by reason of "Force Majeure" the District or any Member City shall be rendered unable wholly or in part to carry out its obligations under this agreement, then if such party shall give notice and full particulars of such "Force Majeure" in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure (with the exception of the obligation of each Member City to make the payments required in Section 5.03 of this contract, which in all events shall be made as provided therein) shall be suspended during the continuance of the inability then claimed, but for no longer periods, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein, shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, and inability on the part of a Member City to provide water necessary for operation of its water and Local Wastewater Facilities hereunder, or of District to receive Wastewater on account of any other causes not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of strikes and lockouts shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lockouts

by acceding to the demands of the opposing party or parties when such settlement is unfavorable to it in the judgment of the party having the difficulty.

Section 6.02. **INSURANCE.** District will carry insurance for such purposes and in such amounts as are determined by the District to be necessary or advisable.

Section 6.03. **REGULATORY BODIES.** This contract shall be subject to all valid rules, regulations and laws applicable hereto passed or promulgated by the United States of America, the State of Texas, or any authorized representative or agency of any of them.

Section 6.04. **EFFLUENT REUSE:** (a) District will make the effluent discharge from its Wastewater treatment plants available for any lawful and beneficial reuse purpose, and a charge shall be made to the customer receiving such effluent sufficient to cover any additional cost involved in providing the service, plus a reasonable portion of the cost of treating the Wastewater which produced such effluent; provided that such portion of the cost allocable to treatment shall not be required to exceed an amount which would, in the judgment of the District, render the use of such effluent by a customer economically infeasible.

(b) Notwithstanding the provisions of Section 3.05 and subsection 6.04(a), each Member City shall have the first right to use all effluent produced from its Wastewater for reuse solely for its own municipal purposes (i.e. golf course irrigation, recreation, etc.), without any charge except for any additional costs to the District necessary to provide the effluent for such municipal use; provided that no Member City shall sell such effluent or make it available to any other customer, and subject to the aforesaid first right of each Member City, the District shall have the right to use all such effluent for District purposes without any charge except for additional costs necessary to provide the effluent for District purposes. As to Plano, however, it is understood and agreed that the reuse of its effluent to fulfill its obligations under its present contracts with the Plano Municipal Golf Course and the Los Rios Country Club (for the primary term and any optional extensions of the contract with Plano Municipal Golf Course and for the primary term of the contract with Los Rios Country Club) shall constitute a reuse for its own municipal purposes, and the foregoing restrictions with respect to selling and making available effluent shall not apply to such present contracts during the terms thereof as aforesaid. In accordance with the provisions of Section 3.05, and notwithstanding the foregoing, to the extent that effluent produced by the District is discharged to watercourses of the State, the right of any Member City to reuse such effluent produced from its Wastewater is terminated, and the District shall have the right as between parties, and pursuant to any necessary authorization of the State, to reuse such discharged effluent.

Section 6.05. **ANNUAL AUDIT OF SYSTEM.** The District shall, at the close of each Fiscal Year, cause an Annual Audit of the System to be prepared.

Section 6.06. **PUBLICATIONS, REFERENCE WORKS, GOVERNMENTAL REGULATIONS.** In each instance herein where reference is made to a publication, reference work or Federal or State regulation, it is the intention of the parties that at any given time the then current edition of any such publication of reference work or Federal or State regulation shall apply. If a publication or reference work is discontinued or ceases to be the generally accepted work in its field

or if conditions change or new methods or processes are implemented by the District, new standards shall be adopted which are in compliance with State and Federal laws and any valid rules and regulations issued pursuant thereto.

Section 6.07. OPERATION OF THE SYSTEM. District covenants that it will operate and maintain the System in accordance with accepted good business and engineering practices.

Section 6.08. CONTINUING DISCLOSURE OF INFORMATION. Prosper shall comply or, upon the request of the District, shall provide to the District such information as will enable the District to comply with any continuing disclosure requirements with respect to the Bonds imposed by Securities and Exchange Commission Rule 15c2-12.

ARTICLE VII

DISTRICT ANNUAL BUDGET

Section 7.01. FILING WITH CITY. (a) Not less than sixty (60) days before the commencement of each Fiscal Year while the Initial Contract and all similar contracts with Member Cities are in effect, District shall cause its tentative budget for operation and maintenance of the System for the ensuing Fiscal Year to be prepared and a copy thereof filed with each Member City. If no protest or request for a hearing on such tentative budget is presented to District within thirty (30) days after such filing of the tentative budget by one or more Member Cities, the tentative budget for the System, when adopted by District's Board of Directors, shall be considered for all purposes as the "Annual Budget" for the ensuing Fiscal Year. But if a protest or request for a hearing is duly filed, it shall be the duty of the District to fix the date and time for a hearing on the tentative budget. The Board of Directors of the District shall consider the testimony and showings made in such hearing. The Board of Directors of the District may adopt the budget or make such amendments thereof as to it may seem proper. The budget thus approved by the Board of Directors of the District shall be the Annual Budget for the next ensuing Fiscal Year.

(b) The Annual Budget may be amended to provide for transfers of budgeted funds between expenditure accounts, provided however that said transfers do not result in an overall increase in budgeted funds as provided in the Annual Budget. The Annual Budget may be amended and increased through formal action by the Board of Directors of District, if required. Certified copies of any amended Annual Budget and the resolution authorizing same shall be filed immediately by the District with each Member City.

ARTICLE VIII

THE SYSTEM

Section 8.01. INITIAL FACILITIES OF THE SYSTEM. (a) Immediately after execution of the Initial Contract, the District established the System initially to consist of facilities at Mesquite and Plano.

(b) As permitted and then authorized by Section 25.024, Texas Water Code (now, Section 30.024, Texas Water Code), and other provisions of law, the District, Mesquite and Plano agreed under the Initial Contract that the Initial Contract shall constitute an operating agreement with respect to the treatment and disposal facilities at Mesquite and Plano which existed on, and are described in the Initial Contract and which on the date of the Initial Contract constituted a part of the Local Wastewater Facilities of Mesquite and Plano respectively.

Section 8.02. DISTRICT CONTRACTS WITH ADDITIONAL MEMBER CITIES. (a) The District reserves the right to contract with subsequent Additional Member Cities to provide the services of the System to such Additional Member Cities; provided that the terms and provisions of such contracts with Additional Member Cities shall be, to the extent practicable and applicable, the same as the terms and provisions of the Initial Contract and the other similar contracts with Member Cities, except that with respect to any Local Wastewater Facilities of such Additional Member City which are to be acquired, operated, or used by the District as a part of the System as a result of such contract, the District and the Additional Member City may agree in such contract for mutually acceptable payments in connection therewith from Bond proceeds or as an Operation and Maintenance Expense of the System (provided that in any formula used for determining such payments, the value attributed to such Local Wastewater Facilities shall not exceed a sum equal to the principal amount of all then outstanding bonds or other obligations issued by the Additional Member City to acquire and construct such Local Wastewater Facilities), and except that such contract shall provide for payments calculated on the basis of adequate minimum flows as hereinafter provided. All Member Cities shall be bound by the Initial Contract, the Richardson Contract, the Allen Contract, the McKinney Contract, the Forney Contract, the Frisco Contract, the Princeton Contract, the Heath Contract, the Rockwall Contract, this contract, and the similar contracts with Additional Member Cities. The District shall not enter into contracts for any services by the System except with cities which become Member Cities, or as otherwise provided in this contract.

(b) A city may become an Additional Member City in the following manner and under the following conditions;

(i) A formal request must be submitted to the District furnishing information on the area to be served, a description of existing facilities, and the latest annual audit of such proposed Additional Member City's waterworks and/or sewer systems, if any.

(ii) Such proposed Additional Member City must provide funds for any necessary engineering studies if funds are not available from the appropriate Federal or State agencies. The preliminary studies must determine or estimate, for the ensuing five year period, the size

and type of any proposed facilities, their estimated cost, and estimated flows of Wastewater, so as to enable the District to ascertain or estimate the requirements of the proposed Additional Member City for the ensuing five year period.

(iii) After all preliminary data is developed, the Board of Directors of the District shall call a hearing and notify all Member Cities to review the request of the proposed Additional Member City. The Board of Directors of the District then shall determine if the proposed Additional Member City shall become a Member City.

(c) Each Additional Member City must agree to make minimum payments under its contract, on the basis of estimated annual minimum flows, that would provide amounts annually at least sufficient, as determined by the District, to pay:

(i) all of the annual Operation and Maintenance Component of the Annual Requirement which is attributable to any Local Wastewater Facilities of such Additional Member City which are to be acquired, operated, used, or improved by the District as part of the System and any other new and additional facilities of the System provided and designated by the District to serve such Member City, less any amount thereof attributable to the use of any part of said facilities for the benefit of any other Member City or Cities, and

(ii) an amount (to be credited and applied to the Bond Service Component of each Annual Requirement), at least equal to:

(a) all of that part of the Bond Service Component of each future Annual Requirement attributable to Bonds issued to acquire or improve any existing Local Wastewater Facilities of such Additional Member City to be a part of the System, and all Bonds issued within five years from the date of such contract to provide any other new and additional facilities for the System to serve such Additional Member City, plus

(b) a percentage of the Bond Service Component of each future Annual Requirement for all then outstanding Bonds equal to the then estimated percentage of use by such proposed Additional Member City of any portion of the then existing System, plus

(iii) an annual amount (to be credited to the Bond Service Component of the Annual Requirement and/or to the Operation and Maintenance Component of the Annual Requirement, at the option of the District) as estimated and determined by the District to equalize the previous capital cost (including the cost of previously constructed excess capacity) of facilities to be used to provide service to the Additional Member City.

(d) The provisions of this Section and the payments to be made under an Additional Member City's contract are further subject to the provisions of Section 5.03 of the Initial Contract and this contract.

Section 8.03. **ADDITIONAL CAPACITY AND FACILITIES.** As the responsible agency for the establishment, administration, management, operation, and maintenance of the System, the District will, from time to time, determine when and to what extent it is necessary to provide additions, enlargements, improvements, repairs, and extensions to the System to receive, transport, treat, and dispose of Wastewater of any Member Cities, including all Additional Member Cities, and to issue its Bonds to accomplish such purposes, and all Member Cities, including Additional Member Cities, shall be obligated to pay both the Operation and Maintenance Component and the Bond Service Component included in the Annual Requirement with respect to the entire System, as expanded, as provided in Section 5.03; provided that this Section shall not be construed so as to reduce or alter the requirements of Section 8.02 with respect to minimum payments.

ARTICLE IX

PAYMENTS BY PROSPER

Section 9.01. Pursuant to Section 8.02 of the Initial Contract, it is required that Prosper, as an Additional Member City, must agree to pay its share of the estimated Annual Requirement and the actual Annual Requirement as required by Article V of the Initial Contract and this contract (and in particular by Section 5.03), subject to the provisions of Section 8.02 of the Initial Contract and this Contract with respect to agreed minimum payments on the basis of annual minimum contributing flows. It is further agreed and understood that there are no Local Wastewater Facilities of Prosper involved in this contract.

Section 9.02. Prosper shall pay its part of the entire Annual Requirement, including the Operation and Maintenance Component and the Bond Service Component, commencing with its initial discharge into the System under this contract, calculated on the basis of (1) an agreed minimum contributing flow of 214,000 gallons of sewage per day, or (2) Prosper's actual contributing flow, or (3) Prosper's Direct Cost, or (4) Prosper's maximum contributing flow, whichever of (1), (2), (3), or (4) is the greatest (subject to any credits due to Direct Cost).

Section 9.03. In addition to the payments required by Section 9.02, Prosper shall pay an amount (to be credited and applied to the Bond Service Component of each Annual Requirement) at least equal to all of that part of the Bond Service Component of each future Annual Requirement attributable to Bonds, if any, issued within five years from the date of this contract to provide any other new and additional facilities for the System to serve only Prosper.

Section 9.04. The District hereby officially finds, determines, and agrees that the above amounts required by Sections 9.02 and 9.03 will cover all amounts required to be paid by Prosper as an Additional Member City under the Initial Contract, and that this contract complies with the requirements of the Initial Contract in all respects.

ARTICLE X

REMEDIES

Section 10.01. Any party to this contract, and any holder of the District's Bonds, may require any party hereto, and its officials and employees, to carry out, respect, and enforce the covenants and obligations of this contract, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against such party, and its officials and employees.

ARTICLE XI

EFFECTIVE DATE AND TERM

Section 11.01. EFFECTIVE DATE. This contract shall become effective as of the date of execution hereof.

Section 11.02. TERM OF CONTRACT. This contract shall continue in force from the effective date hereof at least until all Bonds, including any Bonds issued to refund same, shall have been paid in full; and shall also remain in force thereafter throughout the useful life of the System.

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the 24th day of February, 2007, which is the date of this Contract.

NORTH TEXAS MUNICIPAL WATER DISTRICT

By: M. Ann Fuller
President, Board of Directors

ATTEST:

Jerry E. Yancey
Secretary, Board of Directors

(SEAL)

TOWN OF PROSPER, TEXAS

By: [Signature]
Mayor

ATTEST:

[Signature]
Town Secretary

(SEAL)

In the State of Texas

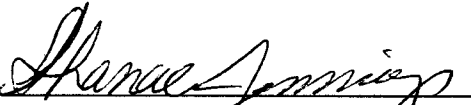
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County of Denton

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I, Shanae Jennings, Town Secretary for the Town of Prosper, Texas, hereby certify that the attached document is a true and correct copy of a document taken from the official Town files of the Town of Prosper, Texas, and is maintained in the regular course of business of the Town of Prosper, Texas. Given under my hand and the seal of office on 11th day of March, 2004.


Shanae Jennings, Town Secretary
Town of Prosper, Texas

NORTH TEXAS MUNICIPAL WATER DISTRICT - UPPER EAST FORK
WASTEWATER INTERCEPTOR SYSTEM SUPPLEMENTAL CONTRACT
(TOWN OF PROSPER, TEXAS)

THE STATE OF TEXAS :

NORTH TEXAS MUNICIPAL WATER DISTRICT :

THIS NORTH TEXAS MUNICIPAL WATER DISTRICT - UPPER EAST FORK
WASTEWATER INTERCEPTOR SYSTEM SUPPLEMENTAL CONTRACT (TOWN OF
PROSPER, TEXAS) (the "Contract") made and entered into as of the 24th day of February, 200~~1~~⁴,
by and between NORTH TEXAS MUNICIPAL WATER DISTRICT (the "District"), an agency and
political subdivision of the State of Texas, being a conservation and reclamation district created and
functioning under Article 16, Section 59, of the Texas Constitution, pursuant to Chapter 62, Acts of
the 52nd Legislature of the State of Texas, Regular Session, 1951, as amended (the "District Act"),
and the Town of Prosper, in Collin and Denton Counties, Texas ("Prbsper").

WITNESSETH:

WHEREAS, Prosper is a duly created municipality operating under the Constitution and
general laws of the State of Texas; and

WHEREAS, the District and Prosper are authorized to enter into this Contract pursuant to the
District Act, Chapter 30, Texas Water Code, and other applicable laws; and

WHEREAS, the District has acquired and constructed and is operating a regional
Wastewater treatment system to serve various Member Cities (hereinafter defined) within the
watershed or drainage area of the East Fork of the Trinity River, in Dallas, Collin, and Denton
Counties, Texas (the "Treatment System"); and

WHEREAS the Treatment System heretofore acquired and constructed is described in various
engineering reports, and includes the facilities and capacities required to serve the Cities of Mesquite,

Plano, Richardson, Allen, McKinney, Forney, Frisco, Princeton, Rockwall, Heath, and Prosper (the "Member Cities"); and

WHEREAS, the contracts between the District and the Member Cities require that each of the Member Cities must arrange or provide for the transportation of its Wastewater to its Point or Points of entry into the District's Treatment System; and

WHEREAS, in order to comply with such requirement the Cities of Allen, McKinney, Plano, and Richardson, Texas (the "Initial Contracting Parties") and the District entered into the "Upper East Fork Wastewater Interceptor System Contract", dated as of July 26, 1984 (the "Initial Contract"), the City of Frisco, Texas ("Frisco") and the District entered into the "Upper East Fork Wastewater Interceptor Supplemental Contract (City of Frisco, Texas), dated November 19, 1996 (the "Frisco Contract"), and the City of Princeton, Texas ("Princeton") and the District enter into the "Upper East Fork Wastewater Interceptor System Supplemental Contract (City of Princeton, Texas)", dated November 26, 1996 (the "Princeton Contract") (the Frisco Contract and the Princeton Contract, collectively, the "Supplemental Contracts") which provided for the separate financing, construction, operation, and maintenance by the District of an interceptor system (the "Interceptor System"), to transport the Wastewater of the Initial Contracting Parties and any Additional Contracting Parties into the District's Treatment System, and with such Interceptor System not to constitute any part of the Treatment System; and

WHEREAS, pursuant to the Initial Contract and the Supplemental Contracts the District has issued and delivered, and there are now outstanding, the following:

the unpaid and unrefunded North Texas Municipal Water District Upper East Fork Wastewater Interceptor System Contract Revenue Refunding Bonds, Series 1988, dated August 1, 1988, authorized by resolution of the Board of Directors of the District on August 5, 1988;

the unpaid and unrefunded North Texas Municipal Water District Upper East Fork Wastewater Interceptor System Contract Revenue Bonds, Series 1998, dated February 15, 1998, authorized by a resolution of the Board of Directors of the District on February 26, 1998;

the unpaid and unrefunded North Texas Municipal Water District Upper East Fork Wastewater Interceptor System Contract Revenue Refunding, Series 1999, dated March 1, 1999, authorized by a resolution of the Board of Directors of the District on October 22, 1998; and

the unpaid and unrefunded North Texas Municipal Water District Upper East Fork Wastewater Interceptor System Contract Revenue Refunding Bonds, Series 2003, dated May 1, 2003, authorized by a resolution of the Board of Directors of the District on April 24, 2003;

WHEREAS, the Initial Contract makes provision for Additional Contracting Parties to become Contracting Parties with substantially the same rights and obligations as each of the Initial Contracting Parties, upon the execution of a contract similar to the Initial Contract; and

WHEREAS, upon the execution of this Contract, Prosper will become such an Additional Contracting Party, and thus a Contracting Party, in accordance with the requirements of the Initial Contract, with all conditions prerequisite to such execution having been met; and

WHEREAS, this Contract substantially restates the essential provisions of the Initial Contract and is structured similar thereto to the fullest extent applicable and practicable, including the requirements with respect to "minimums", but with such additions and changes that are necessary to meet the actual circumstances, with the effect that Prosper, being the an Additional Contracting Party, hereby adopts the provisions of the Initial Contract, as supplemented and necessarily changed by this Contract; and

WHEREAS, the "minimums" set for Prosper in Section 13(c) of this Contract are equitable and have been fixed by the District as required in the Initial Contract.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the District agrees to provide Wastewater transportation services of the Interceptor System to Prosper under this Contract, and to issue its Bonds from time to time, upon and subject to the terms and conditions hereinafter set forth, to-wit:

Section 1. DEFINITION OF TERMS. The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

(a) "Additional Contracting Party" means any party with which, in accordance with the Initial Contract and this Contract, the District makes a contract similar to this Contract for providing services of the Interceptor System, provided that after execution of any such contract such party shall become one of the Contracting Parties for all purposes of this Contract, unless otherwise specifically provided herein.

(b) "Adjusted Annual Payment" means the Annual Payment, as adjusted during or after each Annual Payment Period, as provided by this Contract.

(c) "Annual Payment" means the amount of money to be paid to the District by each of the Contracting Parties during each Annual Payment Period as its proportionate share of the Annual Requirement.

(d) "Annual Payment Period" means the District's Fiscal Year, which currently begins on October 1 of each calendar year and ends on the last day of September of the next calendar year.

(e) "Annual Requirement" means the total amount of money required for the District to pay all Operation and Maintenance Expenses of the Interceptor System, to pay the debt service on its Bonds, to pay or restore any amounts required to be deposited in any special, contingency, or reserve funds required to be established and/or maintained by the provisions of the Bond Resolutions, all as further described in this Contract.

(f) "Bond Resolution" means any resolution of the District which authorizes any Bonds.

(g) "Bonds" means all bonds heretofore and hereafter issued by the District, including specifically the outstanding bonds described in the preamble to this Contract, whether in one or more series or issues, and the interest thereon, to acquire and construct the Interceptor System, and/or subsequently to improve and/or extend the Interceptor System, and any bonds issued to refund any Bonds or to refund any such refunding bonds.

(h) "Contracting Parties" means the Cities of Allen, McKinney, Plano, Richardson, Frisco, Princeton, and Propser, together with any other party or parties which hereafter becomes one of the Contracting Parties by becoming an Additional Contracting Party.

(i) "Contracting Party" means any one of the Contracting Parties.

(j) "Engineering Report" means the report of Shimek, Jacobs & Finklea, Consulting Engineers, Dallas, Texas, dated November, 1983, describing the original facilities of the Interceptor System, together with all changes therein and supplements and additions thereto by said Consulting Engineers or other engineers.

(k) "Interceptor System" means collectively the Wastewater transportation facilities described in the Engineering Report, and all improvements and additions to and extensions, enlargements, and replacements of such facilities which are acquired and constructed by the District in order to receive and transport Wastewater of the Contracting Parties to their respective Points of Entry into the Treatment System. However, and notwithstanding the foregoing, said term includes only those facilities which are acquired or constructed with proceeds from the sale of Bonds issued, or payments made, pursuant to the Initial Contract and this Contract, and any similar contracts with Additional Contracting Parties. Said term does not include any part of the Treatment System or any facilities acquired or constructed by the District with the proceeds from the issuance of "Special

Facilities Bonds", which are hereby defined as being revenue obligations of the District which are not secured by or payable from Annual Payments made under the Initial Contract, this Contract, and similar contracts with Additional Contracting Parties, and which are payable solely from other sources.

(l) "Operation and Maintenance Expenses" means all costs and expenses of operation and maintenance of the Interceptor System, including (for greater certainty but without limiting the generality of the foregoing) repairs and replacements for which no special fund is created in the Bond Resolutions, operating personnel, the cost of utilities, the costs of supervision, engineering, accounting, auditing, legal services, supplies, services, administration of the Interceptor System, including the District's general overhead expenses attributable to the Interceptor System, insurance premiums, equipment necessary for proper operation and maintenance of the Interceptor System, and payments made by the District in satisfaction of judgments resulting from claims not covered by the District's insurance arising in connection with the operation and maintenance of the Interceptor System. The term also includes the charges of the bank or banks and other entities acting as paying agents and/or registrars for any Bonds. The term does not include depreciation.

(m) "Treatment Contracts" means the contracts, and all amendments thereto or replacements thereof, heretofore or hereafter entered into between or among the Contracting Parties and the District with respect to the Treatment System, with such existing contracts being described as follows:

Trinity East Fork Regional Wastewater System Contract, dated as of October 1, 1975 among the Cities of Mesquite and Plano and the District.

City of Richardson-Trinity East Fork Regional Wastewater System Contract dated as of January 9, 1978, between the City of Richardson and the District.

City of Allen-Trinity East Fork Regional Wastewater System Contract, dated as of August 24, 1978, between the City of Allen and the District.

City of McKinney-Trinity East Fork Regional Wastewater System Contract, dated as of August 29, 1979, between the City of McKinney and the District, and

City of Frisco-Trinity East Fork Regional Wastewater System Contract, dated as of November 19, 1996, between the City of Frisco and the District.

City of Princeton-Trinity East Fork Regional Wastewater System Contract, dated as of November 26, 1996, between the City of Princeton and the District.

Town of Prosper-Trinity East Fork Regional Wastewater System Contract, dated as of the date of this Contract, between the Town of Prosper and the District.

(n) "Treatment System" means the District's "Treatment System" as generally described in the preamble to this Contract, and includes all facilities acquired, constructed, or operated by the District pursuant to the Treatment Contracts.

(o) "Wastewater" means Sewage, Industrial Waste, Municipal Waste, Recreational Waste, and Agricultural Waste, together with Properly Shredded Garbage and such Infiltration Water that may be present, all as defined in the Texas Water Code.

Section 2. CONSULTING ENGINEERS; CONSTRUCTION OF INTERCEPTOR SYSTEM. Shimek, Jacobs & Finklea have been the Consulting Engineers for the Interceptor System, provided that the Consulting Engineers may be changed at the option of the District. The District has used its best efforts to acquire and construct the Interceptor System, and the Interceptor System has been acquired and constructed in general accordance with the Engineering Report. Such acquisition and construction has been financed by the District through the issuance of its Bonds payable from and secured by Annual Payments made under the Initial Contract, and the District agrees to use its best efforts to issue its Bonds in the future as required and in accordance with each of the contracts with the Contracting Parties. The proceeds from the sale and delivery of such future

Bonds also will be used for the payment of the District's expenses and costs in connection with the Interceptor System and the Bonds, including, without limitation, all financing, legal, printing, and other expenses and costs related to the issuance of such Bonds and the Interceptor System.

Section 3. QUANTITY AND POINTS OF ENTRY. (a) In consideration of the payments to be made by each Contracting Party, during each Annual Payment Period during which the Interceptor System is in operation, each Contracting Party shall or may discharge into the Interceptor System, at its Point or Points of Entry hereinafter described, all of the Wastewater which is required, or permitted to be, discharged into the District's Treatment System by such Contracting Party under the Treatment Contracts, subject to the restrictions hereinafter stated; and provided that each such Contracting Party must transport such Wastewater to its Point or Points of Entry into the Interceptor System.

(b) The maximum rate at which Wastewater is discharged by each Contracting Party at its Point or Points of Entry into the Interceptor System shall not exceed for a period of sixty minutes a rate which, if continued for a period of twenty-four hours would equal 3.50 times such Contracting Party's estimated average daily contributing flow of Wastewater into the Treatment System for the then current Annual Payment Period. The total quantity of Wastewater discharged into the Interceptor System shall never exceed the amount which the Interceptor System and the Treatment System are capable of receiving, treating, and disposing, unless approved by the District, subject to terms and conditions to be established by the District. Notwithstanding the foregoing, no Contracting Party shall ever make any discharge into the Interceptor System or the Treatment System which would cause them to be overloaded or be in violation of its permits from the State of Texas and/or the United States of America.

(c) Wastewater meeting the quality requirements of Section 4 of this Contract will be received into the Interceptor System at the Points of Entry, respectively, to be established pursuant to mutual agreement between the District and the affected Contracting Party. Additional Points of Entry may be established by mutual agreement between the District and a Contracting Party in the future if such additional Points of Entry are determined by the District to be beneficial to the Interceptor System.

(d) It is the intention of the Contracting Parties that the Interceptor System shall be acquired, constructed, extended, and improved so that at all reasonable times it will be capable of receiving and transporting all eligible Wastewater of each Contracting Party which such Contracting Party is required or permitted to discharge into the District's Treatment System pursuant to the Treatment Contracts, and that the District will from time to time issue its Bonds in such amounts as are, within its judgment and discretion, sufficient to achieve such results. It is further the intention of the Contracting Parties that the District shall issue or use its best efforts to issue its Bonds for such purpose, and to provide improvements, enlargements, and extensions to the Interceptor System as needed for the Contracting Parties.

Section 4. QUALITY. Each Contracting Party shall discharge into the Interceptor System only such Wastewater as it is required or permitted to discharge into the District's Treatment System, and will not discharge into the Interceptor System any wastes prohibited by the Treatment Contracts.

Section 5. METERING OF WASTEWATER. The District will furnish, install, operate, and maintain at its expense the necessary equipment and devices of standard type required for measuring properly all Wastewater discharged into the District's Treatment System by each Contracting Party, respectively, under the Treatment Contracts. Such meters and other equipment shall remain the property of the District. Each Contracting Party shall have access to such metering equipment at all

reasonable times for inspection and examination, but the reading, calibration, and adjustment thereof shall be done only by employees or agents of the District in the presence of a representative of the affected Contracting Party or Parties if requested by such Contracting Party or Parties. All readings of meters will be entered upon proper books of record maintained by the District. Upon written request any Contracting Party may have access to said record books during reasonable business hours. Not more than three times in each year of operation, the District shall calibrate its meters, if requested in writing by the affected Contracting Party or Parties to do so, in the presence of a representative of such Contracting Party or Parties, and such parties shall jointly observe any adjustments which are made to the meters in case any adjustment is found to be necessary. If, for any reason, any meters are out of service or out of repair, or if, upon any test, the percentage of inaccuracy of any meter is found to be in excess of five (5%) per cent, registration thereof shall be corrected for a period of time extending back to the time when such inaccuracy began, if such time is ascertainable, and if not ascertainable, then for a period extending back one-half (1/2) of the time elapsed since the date of the last calibration, but in no event further back than a period of six (6) months. Any Contracting Party may, at its option and its own expense, install and operate a check meter to check each meter installed by the District, but the measurement for the purpose of this agreement shall be solely by the District's meters, except as in this Section specifically provided to the contrary. All such check meters shall be of standard make and shall be subject at all reasonable times to inspection and examination by any employee or agent of the District, but the reading, calibration, and adjustment thereof shall be made only by the Contracting Party or Parties, except during any period when a check meter may be used under specific written consent by the District for measuring the amount of Wastewater delivered into the Treatment System, in which case the reading,

calibration, and adjustment thereof shall be made by the District with like effect as if such check meter or meters had been furnished or installed by the District.

Section 6. UNIT OF MEASUREMENT. The unit of measurement for Wastewater discharged into the Interceptor System and the Treatment System shall be 1,000 gallons, U. S. Standard Liquid Measure.

Section 7. LIABILITY FOR DAMAGES AND RESPONSIBILITY FOR WASTEWATER; TITLE TO WASTEWATER. Liability for damages arising from the transportation, delivery, reception, treatment, and/or disposal of all Wastewater discharged into the Interceptor System hereunder shall remain in each Contracting Party to its Point or Points of Entry, respectively, into the Interceptor System, and title to such Wastewater shall be in such Contracting Party to such Point or Points, and upon passing through Points of Entry liability for such damages and title to such Wastewater shall pass to the District. As between the District and each Contracting Party, each party agrees, to the full extent permitted by law, to indemnify and to save and hold the other party harmless from any and all claims, demands, causes of action, damages, losses, costs, fines, and expenses, including reasonable attorney's fees, which may arise or be asserted by anyone at any time on account of the transportation, delivery, reception, treatment, and/or disposal while title to the Wastewater is in such party, or on account of a prohibited discharge by a Contracting Party. The District has the responsibility as between the parties for the proper reception, transportation, treatment, and disposal of all Wastewater discharged into the Interceptor System, but not for prohibited discharges discharged by any party at any Point of Entry. The District has the right as between the parties to the reuse of all Wastewater discharged into the Interceptor System.

Section 8. OTHER CONTRACTS. (a) The District reserves the right to enter into contracts to provide the Wastewater transportation services of the Interceptor System to Additional Contracting Parties under contracts similar to this Contract, subject to the requirements concerning "minimums" and other matters as hereinafter provided; provided, however, that prior to or concurrently with becoming an Additional Contracting Party under this Contract such party must enter into a Treatment Contract with the District in connection with the Treatment System. Each contract with any Additional Contracting Party shall comply with the requirements of this Contract, shall substantially restate the essential provisions of this Contract, and shall be structured to be similar hereto to the fullest extent applicable and practicable, with such additions or changes as are necessary to meet the actual circumstances, with the effect that each Additional Contracting Party will substantially adopt the provisions of this Contract, as supplemented and necessarily changed by its contract. However, the District shall not obligate itself to receive Wastewater into the Interceptor System from any future Additional Contracting Party if, in the judgment and discretion of the District, such obligation would jeopardize the District's ability to meet its obligation to receive and transport Wastewater discharged into the Interceptor System by prior Contracting Parties.

(b) Notwithstanding the foregoing a party may become an Additional Contracting Party only in the following manner and under the following conditions:

(i) A formal request must be submitted to the District by the proposed Additional Contracting Party furnishing information on the area to be served, a description of existing facilities, and the latest annual audit of such proposed Additional Contracting Party's waterworks and/or sewer systems, if any.

(ii) Such proposed Additional Contracting Party must provide funds for any necessary engineering studies if funds are not available therefor from the appropriate Federal or State agencies. The preliminary studies must determine or estimate, for the ensuing five year period, the size and type of any proposed improvements, enlargements, or extensions to the Interceptor System to serve such Additional Contracting Party, their estimated cost, and estimated flows of Wastewater, so as to enable the District to ascertain or estimate the requirements of the proposed Additional Contracting Party for the ensuing five year period.

(iii) After all preliminary data is developed, the Board of Directors of the District shall call for a hearing on the matter and notify all Contracting Parties to review the request of the proposed Additional Contracting Party. The Board of Directors of the District then shall determine if the proposed Additional Contracting Party should become an Additional Contracting Party. If so determined, the Board of Directors then may authorize the District to enter into the required contract with such Additional Contracting Party as provided in this Contract, and may authorize any Bonds required in connection with such Additional Contracting Party.

(iv) Each such contract with an Additional Contracting Party must provide for minimum payments under its contract, on the basis of estimated annual minimum flows into the District's Treatment System, that would provide amounts annually at least sufficient, as determined by the District, to pay that portion of the annual Operation and Maintenance Component of the Annual Requirement which is attributable to that part of the Interceptor System provided by the District to serve such Additional Contracting Party, and to pay that portion of the Bond Service

Component of each Annual Requirement attributable to Bonds issued within five years from the date of such contract to acquire or improve any new and additional facilities for the Interceptor System to serve in whole or in part such Additional Member City, plus a percentage of the Bond Service Component of each future Annual Requirement for all then outstanding Bonds equal to the then estimated percentage of use by such proposed Additional Contracting Party of any portion of the then existing Interceptor System.

(c) It is further recognized and agreed that in the future the District may provide services of the Interceptor System to parties which are not Additional Contracting Parties, provided that all such services of the Interceptor System to parties which are not Additional Contracting Parties shall in all respects be subordinate to the prior rights of the Contracting Parties, and all contracts or other arrangements relating to such services shall recognize, and be made subordinate to, such prior rights.

Section 9. FISCAL PROVISIONS. (a) Subject to the terms and provisions of this Contract, the District will provide and pay for the cost of the acquisition and construction of all Interceptor System facilities, by using its best efforts to issue its Bonds in amounts which will be sufficient to accomplish such purposes, and the District will own and operate the Interceptor System. It is acknowledged and agreed that payments to be made under contracts with the Contracting Parties will be the basic source available to the District to provide the Annual Requirement, and that, in compliance with the District's duty to fix and from time to time revise the rates of compensation or charges for services of the Interceptor System rendered and made available by the District, the Annual Requirement will change from time to time, and that each

such Annual Requirement shall be allocated among the Contracting Parties as hereinafter provided, and that the Annual Requirement for each Annual Payment Period shall be provided for in each Annual Budget and shall at all times be not less than an amount sufficient to pay or provide for the payment of:

- (A) An "Operation and Maintenance Component" equal to the amount paid or payable for all Operation and Maintenance Expenses of the Interceptor System; and
- (B) A "Bond Service Component" equal to:
 - (1) the principal of, redemption premium, if any, and interest on, its Bonds, as such principal, redemption premium, if any, and interest become due, less interest to be paid out of Bond proceeds or from other sources if permitted by any Bond Resolution, and all amounts required to redeem any Bonds prior to maturity when and as provided in any Bond Resolution; and
 - (2) the proportionate amount of any special, contingency, or reserve funds required to be accumulated and maintained by the provisions of any Bond Resolution; and
 - (3) any amount in addition thereto sufficient to restore any deficiency in any of such funds required to be accumulated and maintained by the provisions of any Bond Resolution.

Section 10. ANNUAL BUDGET. Each Annual Budget for the Interceptor System shall always provide for amounts sufficient to pay the Annual Requirement. On or before July 1 of each fiscal year during the term of this Contract the District shall furnish to each Contracting Party a preliminary estimate of the Annual Payment required from each Contracting Party for the next

following Annual Payment Period. Not less than forty days before the commencement of each such Annual Payment Period under this Contract the District shall cause to be prepared as herein provided its preliminary budget for the Interceptor System for the next ensuing Annual Payment Period, which budget shall specifically include the Operation and Maintenance Component and the Bond Service Component. A copy of such preliminary budget shall be filed with each Contracting Party together with an estimated schedule of monthly payments to be made by each Contracting Party. The preliminary budget shall be subject to examination, at reasonable times during business hours, at the office of the City Secretary of each Contracting Party. If no protest or request for a hearing on such preliminary budget is presented to the District within thirty days after such filing of the preliminary budget by one or more Contracting Parties or by the owners of a minimum of 25% in principal amount of the Bonds then outstanding, the preliminary budget for the Interceptor System shall be considered for all purposes as the "Annual Budget" for the next ensuing Annual Payment Period. But if protest or request for a hearing is duly filed, it shall be the duty of the District to fix the date and time for a hearing on the preliminary budget, and to give not less than ten days notice thereof to the Contracting Parties. An appropriate Committee of the District shall consider the testimony and showings made in such hearing and shall report its findings to the Board of Directors of the District. The Board of Directors may adopt the preliminary budget or make such amendments thereof as to it may seem proper. The budget thus approved by the Board of Directors of the District shall be the Annual Budget for the next ensuing Annual Payment Period. The Annual Budget may be amended by the District at any time to transfer from one division thereof to another funds which will not be needed by such division. The amount for any division, or the amount for any purpose, in the Annual Budget may be increased through formal

action by the Board of Directors of the District even though such action might cause the total amount of the Annual Budget to be exceeded; provided that such action shall be taken only in the event of an emergency or special circumstances which shall be clearly stated in a resolution at the time such action is taken by the Board of Directors. Certified copies of the amended Annual Budget and resolution shall be filed immediately by the District with each Contracting Party.

Section 11. PAYMENTS BY CONTRACTING PARTIES. (a) For the Wastewater transportation services to be provided to the Contracting Parties under this Contract, each of the Contracting Parties agrees to pay, at the time and in the manner hereinafter provided, its proportionate share of the Annual Requirement, which shall be determined as herein described and shall constitute a Contracting Party's Annual Payment. Each of the Contracting Parties shall pay its part of the Annual Requirement for each Annual Payment Period directly to the District, in monthly installments, on or before the 10th day of each month, commencing the month following the month in which the District first makes Wastewater transportation services available to Prosper from the Interceptor System, in accordance with the schedule of payments furnished by the District, as hereinafter provided.

(b) For each Annual Payment Period each Contracting Party's proportionate share of the Annual Requirement shall be a percentage obtained by dividing the number of gallons of contributing flow of Wastewater estimated to be discharged into the District's Treatment System by such Contracting Party pursuant to the Treatment Contracts during such Annual Payment Period, as determined by the District after consultation with such Contracting Party, by the aggregate total number of gallons of contributing flow of Wastewater estimated to be discharged into the District's Treatment System by all Contracting Parties pursuant to the Treatment

Contracts during such period, as determined by the District after consultation with all of the Contracting Parties. All such payments for each Annual Payment Period shall be made in accordance with a written schedule of payments for the appropriate Annual Payment Period which will be supplied to each of the Contracting Parties by the District. At the close of each Annual Payment Period the District shall determine the actual metered number of gallons of contributing flow of Wastewater discharged into the District's Treatment System by each Contracting Party pursuant to the Treatment Contracts during said period and determine each Contracting Party's actual percentage of the Annual Requirement by dividing such Contracting Party's actual metered contributing flow into the Treatment System by the actual metered contributing flow of all Contracting Parties into the Treatment System. Each Contracting Party's Adjusted Annual Payment shall be calculated by multiplying each such Contracting Party's redetermined percentage times the actual Annual Requirement. The difference between the amounts which actually have been paid by each Contracting Party and the amounts actually due from such Contracting Party hereunder shall be applied as a credit or a debit to such Contracting Party's account with the District and shall be credited or debited to such Contracting Party's next monthly payment or payments, or as otherwise agreed between the District and the affected Contracting Party, provided that all such credits and debits shall be made in a timely manner not later than the end of the next following Annual Payment Period.

(c) Notwithstanding the provisions of (b), above, and as an exception thereto, it is agreed that if, during any Annual Payment Period, the estimated and/or actual metered contributing flow of Wastewater into the District's Treatment System of any Contracting Party pursuant to the Treatment Contracts is, for any reason whatsoever, less than the minimum amount hereinafter

prescribed and provided for it, such Contracting Party shall pay its share of each Annual Requirement as if its estimated and/or actual metered contributing flow of Wastewater into the District's Treatment System pursuant to the Treatment Contracts were such minimum amount. However, if such Contracting Party's estimated and/or actual metered contributing flow of Wastewater into the District's Treatment System is equal to or in excess of such minimum amount, its share of all of each Annual Requirement shall be calculated on the basis of estimated and actual contributing flow as provided in (b), above. All contracts with Additional Contracting Parties shall provide for equitable minimums similar to those provided for below. Such minimums shall be fixed in amounts as required by Section 8(b) hereof, as determined by the District, and also shall be at least sufficient, as determined by the District, to assure an initial annual payment by such Additional Contracting Party for not less than the amount of its estimated contributing flow of Wastewater into the District's Treatment System during the first year of service under such contract. For the purpose of calculating the minimum percentage of each Annual Requirement for which each Contracting Party is unconditionally liable, without offset or counterclaim (also see Section 14 hereof), the contributing flow of Wastewater into the District's Treatment System of each Contracting Party pursuant to the Treatment Contracts, during each Annual Payment Period, shall be deemed to be not less than the minimum amount (regardless of whether or not such amount was actually discharged into the District's Treatment System pursuant to the Treatment Contracts) specified for such Contracting Party as follows:

City of Allen:	1,810,000 gallons per day
City of McKinney:	2,000,000 gallons per day
City of Plano:	11,570,000 gallons per day
City of Richardson:	2,000,000 gallons per day

City of Frisco: 600,000 gallons per day

City of Princeton: 500,000 gallons per day

Town of Prosper 1,455,000 gallons per day

(d) Notwithstanding the foregoing, the Annual Requirement, and each Contracting Party's share thereof shall be redetermined, after consultation with each of the Contracting Parties, at any time during any Annual Payment Period, to the extent deemed necessary or advisable by the District, if:

- (i) The District commences furnishing services of the Interceptor System to an Additional Contracting Party or Parties;
- (ii) Unusual, extraordinary, or unexpected expenditures for Operation and Maintenance Expenses are required which are not provided for in the District's Annual Budget for the Interceptor System or in any Bond Resolution;
- (iii) Operation and Maintenance Expenses are substantially less than estimated;
- (iv) The District issues Bonds which require an increase in the Bond Service Component of the Annual Payment; or
- (v) The District receives either significantly more or significantly less revenues or other amounts than those anticipated.

(e) During each Annual Payment Period all revenues received by the District from providing services of the Interceptor System to parties which are not Contracting Parties, shall (i) first be credited to the Operation and Maintenance Component of the Annual Requirement, and (ii) then any remainder credited to the Bond Service Component of the Annual Requirement, with the result that such credits under (i) and (ii), respectively, shall reduce, to the extent of such

credits, the amounts of such Components, respectively, which otherwise would be payable by the Contracting Parties pursuant to the method prescribed in (b) and (c), above. The District may estimate all such credits which it expects to make during each Annual Payment Period in calculating each Annual Payment.

(f) Each Contracting Party hereby agrees that it will make payments to the District required by this Section on or before the 10th day of each month of each Annual Payment Period. If any Contracting Party at any time disputes the amount to be paid by it to the District, such complaining party shall nevertheless promptly make such payment or payments, but if it is subsequently determined by agreement or court decision that such disputed payments made by such complaining party should have been less, or more, the District shall promptly revise and reallocate the charges among all Contracting Parties in such manner that such complaining party will recover its overpayment or the District will recover the amount due it. All amounts due and owing to the District by each Contracting Party or due and owing to any Contracting Party by the District shall, if not paid when due, bear interest at the rate of ten (10) percent per annum from the date when due until paid. The District shall, to the extent permitted by law, discontinue the services of the Interceptor System to any Contracting Party which remains delinquent in any payments due hereunder for a period of sixty days, and shall not resume such services while such Contracting Party is so delinquent. It is further provided and agreed that if any Contracting Party should remain delinquent in any payments due hereunder for a period of one hundred twenty days, and if such delinquency continues during any period thereafter, such Contracting Party's minimum amount of gallons of Wastewater specified and described in (c), above, shall be deemed to have been zero gallons during all periods of such delinquency, for the purpose of calculating and

redetermining the percentage of each Annual Payment to be paid by the non-delinquent Contracting Parties, and the District shall redetermine such percentage on that basis in such event so that the non-delinquent Contracting Parties collectively shall be required to pay all of the Annual Requirement. However, the District shall pursue all legal remedies against any such delinquent Contracting Party to enforce and protect the rights of the District, the other Contracting Parties, and the owners of the Bonds, and such delinquent Contracting Party shall not be relieved of the liability to the District for the payment of all amounts which would have been due hereunder, in the absence of the next preceding sentence. It is understood that the foregoing provisions are for the benefit of the owners of the Bonds so as to insure that all of the Annual Requirement will be paid by the non-delinquent Contracting Parties during each Annual Payment Period regardless of the delinquency of a Contracting Party. If any amount due and owing by any Contracting Party to the District is placed with an attorney for collection, such Contracting Party shall pay to the District all attorneys fees, in addition to all other payments provided for herein, including interest.

(g) If, during any Annual Payment Period, any Contracting Party's Annual Payment is redetermined in any manner as provided or required in this Section, the District will promptly furnish such Contracting Party with an updated schedule of monthly payments reflecting such redetermination.

Section 12. SPECIAL PROVISIONS. (a) The District will continuously operate and maintain the Interceptor System in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense.

(b) The District agrees to carry fire, casualty, public liability, and other insurance on the Interceptor System for purposes and in amounts which ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that the District shall not be required to carry liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of the District's legal counsel, be liable under the Texas Tort Claims Act or any similar law or judicial decision. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. All premiums for such insurance shall constitute an Operation and Maintenance Expense of the Interceptor System.

(c) It is estimated that the Interceptor System will be placed in operation as soon as practicable. It is expressly understood and agreed, however, that any obligations on the part of the District to acquire, construct, complete, and/or improve the Interceptor System and to provide the services of the Interceptor System to the Contracting Parties shall be (i) conditioned upon the District's ability to obtain all necessary permits, material, labor, and equipment, and upon the ability of the District to finance the cost of the Interceptor System through the actual sale of the District's Bonds and (ii) subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, and any regulatory body having jurisdiction.

(d) The District shall never have the right to demand payment by any Contracting Party of any obligations assumed by it or imposed on it under and by virtue of this Contract from funds raised or to be raised by taxes, and the obligations under this Contract shall never be construed to be a debt of such kind as to require any of the Contracting Parties to levy and collect a tax to discharge such obligation.

(e) Each of the Contracting Parties, respectively, has represented and covenanted or hereby represents and covenants that all payments, including indemnity payments, to be made by it under this Contract shall constitute reasonable and necessary "operating expenses" of its combined waterworks and sewer system, as defined in Section 30.030, Texas Water code, as amended, and Section 1502.056, Texas Government Code (formerly, Vernon's Ann. Tex. Civ. St. Article 1113), and that all such payments will be made from the revenues of its combined waterworks and sewer system. Each of the Contracting Parties, respectively, has represented or determined or hereby represents and has determined that the services to be provided by the Interceptor System are absolutely necessary and essential to the present and future operation of its combined water and sewer system, and that the Interceptor System constitutes the reasonable and necessary method for transporting its Wastewater into the District's Treatment System, and, accordingly, all payments required by this Contract to be made by each Contracting Party shall constitute reasonable and necessary operating expenses of its combined water and sewer system as described above, with the effect that the obligation to make such payments from revenues of such combined water and sewer system shall have priority over any obligation to make any payments from such revenues of principal, interest, or otherwise, with respect to all bonds or other obligations heretofore or hereafter issued by such Contracting Party.

(f) Each of the Contracting Parties has agreed or hereby agrees throughout the term of this Contract to continuously operate and maintain its combined waterworks and sewer system and to fix and collect such rates and charges for water and sewer services and/or sewer services to be supplied by its combined waterworks and sewer system as aforesaid as will produce revenues in an amount equal to at least (i) all of the expenses of operation and maintenance expenses of such system, including specifically its payments under this Contract, and (ii) all other amounts as

required by law and the provisions of the ordinances or resolutions authorizing its revenue bonds or other obligations now or hereafter outstanding, including the amounts required to pay all principal of and interest on such bonds and other obligations.

Section 13. **FORCE MAJEURE.** If by reason of force majeure any party hereto shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of each Contracting Party to make the payments required under Section 11 of this Contract, then if such party shall give notice and full particulars of such force majeure in writing to the other parties within a reasonable time after occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such force majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any Civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, or on account of any other causes not reasonably within the control of the party claiming such inability.

Section 14. **UNCONDITIONAL OBLIGATION TO MAKE PAYMENTS.** Recognizing the fact that the Contracting Parties urgently require the facilities and services of the Interceptor System, and that such facilities and services are essential and necessary for actual use and for standby purposes, and recognizing the fact that the District will use payments received from the

Contracting Parties to pay and secure its Bonds, it is hereby agreed that each of the Contracting Parties shall be unconditionally obligated to pay, without offset or counterclaim, its proportionate share of the Annual Requirement, as provided and determined by this Contract (including the obligations for paying for "minimums" as described in Section 11 hereof), regardless of whether or not the District actually acquires, constructs, or completes the Interceptor System or is actually operating or providing services of the Interceptor System to any Contracting Party hereunder, or whether or not any Contracting Party actually uses the services of the Interceptor System whether due to Force Majeure or any other reason whatsoever, regardless of any other provisions of this or any other contract or agreement between any of the parties hereto. This covenant by the Contracting Parties shall be for the benefit of and enforceable by the holders of the Bonds and/or the District.

Section 15. TERM OF CONTRACT; MODIFICATION; NOTICES; STATE OR FEDERAL LAWS, RULES, ORDERS, OR REGULATIONS. (a) This Contract shall be effective on and from the Contract Date, and this Contract shall continue in force and effect until the principal of and interest on all Bonds shall have been paid, and thereafter shall continue in force and effect during the entire useful life of the Interceptor System.

(b) Modification. No change, amendment, or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all moneys required to be paid by each Contracting Party under the terms of this Contract and no such change, amendment, or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

(c) Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made, or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to the District, to:

North Texas Municipal Water District
P. O. Box 2408
Wylie, Texas 75098

If to the Contracting Parties, as follows:

City of Allen
One Butler Circle
Allen, Texas 75013

City of McKinney
222 North Tennessee Street
McKinney, Texas 75069

City of Plano
1520 Avenue K
Plano, Texas 75074

City of Richardson
411 W. Arapaho Road
Richardson, Texas 75080

City of Frisco
6891 Main Street
Frisco, Texas 75034

City of Princeton
306 N. Front St.
Princeton, Texas 75407-0970

Town of Prosper
P.O. Box 307
Prosper, Texas 75078

The District and the Contracting Parties shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days' written notice to the other parties hereto.

(d) State or Federal Laws, Rules, Orders, or Regulations. This Contract is subject to all applicable Federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, state, or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction.

Section 16. SEVERABILITY. The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State of Texas or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality, or

contravention shall not affect any other sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause, or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

Section 17. REMEDIES UPON DEFAULT. It is not intended hereby to specify (and this Contract shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by any party hereto and shall be cumulative. Recognizing however, that the District's undertaking to provide and maintain the services of the Interceptor System is an obligation, failure in the performance of which cannot be adequately compensated in money damages alone, the District agrees, in the event of any default on its part, that each Contracting Party shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available. Recognizing that failure in the performance of any Contracting Party's obligations hereunder could not be adequately compensated in money damages alone, each Contracting Party agrees in the event of any default on its part that the District shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to the District. Notwithstanding anything to the contrary contained in this Contract, any right or remedy or any default hereunder, except the right of the District to receive the Annual Payment which shall never be determined to be waived, shall be deemed to be

conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character, or description, under any circumstances.

Section 18. VENUE. All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Collin County, Texas, which is the County in which the principal administrative offices of the District are located. It is specifically agreed among the parties to this Contract that Collin County, Texas, is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Collin County, Texas.

Section 19. CONTINUING DISCLOSURE OF INFORMATION. Prosper shall comply or, upon the request of the District, shall provide to the District such information as will enable the District to comply, with any continuing disclosure requirements with respect to the Bonds imposed by Securities and Exchange Commission Rule 15c2-12.

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written, which is the date of this Contract.

NORTH TEXAS MUNICIPAL WATER
DISTRICT

BY Marvin Fuller
President, Board of Directors

ATTEST:

Jerry E. Yancy
Secretary, Board of Directors
(SEAL)

TOWN OF PROSPER, TEXAS

BY Ally Sharp
Mayor

ATTEST:

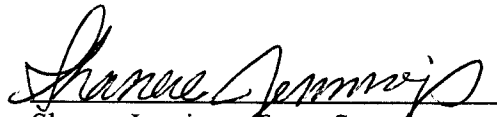
Shanae Jennings
Town Secretary
(SEAL)

In the State of Texas

§
§
§

County of Denton

I, Shanae Jennings, Town Secretary for the Town of Prosper, Texas, hereby certify that the attached document is a true and correct copy of a document taken from the official Town files of the Town of Prosper, Texas, and is maintained in the regular course of business of the Town of Prosper, Texas. Given under my hand and the seal of office on 11th day of March, 2004.


Shanae Jennings, Town Secretary
Town of Prosper, Texas

TOWN OF PROSPER

Financial Statements
(With Auditor's Report Thereon)

For the Year Ended September 30, 2003



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P. O. BOX 148
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MEMBERS
AMERICAN INSTITUTE OF CPAs
AICPA DIVISION FOR CPA FIRMS
TEXAS SOCIETY OF CPAs

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
And Members of the Town Council
Town of Prosper
Prosper, Texas

We have audited the accompanying general purpose financial statements of the Town of Prosper, as of and for the year ended September 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Prosper. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Prosper, Texas, at September 30, 2003, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the individual fund financial statements. The accompanying financial information listed as statistical section in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the Town of Prosper, Texas. Such information has been subjected to the auditing procedures applied in the audit of the general purpose, combining, and individual fund financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

Pingleton, Howard & Company, P. C.

November 18, 2003

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FINANCIAL STATEMENTS