

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2009**

| | General Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------|-------------------------|--------------------------------|
| Revenues: | | | |
| Taxes | \$ 1,283,705 | \$ 1,112,306 | \$ 2,396,011 |
| Intergovernmental revenues | 33,653 | - | 33,653 |
| Water and wastewater charges | 3,721,868 | - | 3,721,868 |
| Standby fees | 819 | - | 819 |
| Inspection and tap fees | 4,975 | - | 4,975 |
| Utility fees | 515,200 | - | 515,200 |
| Investment income | 20,755 | 4,105 | 24,860 |
| Miscellaneous | 165,308 | - | 165,308 |
| Total revenues | <u>5,746,283</u> | <u>1,116,411</u> | <u>6,862,694</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 360,067 | - | 360,067 |
| Water operations | 1,811,385 | - | 1,811,385 |
| Wastewater operations | 999,388 | - | 999,388 |
| Wastewater collection system | 294,869 | - | 294,869 |
| Utility billing | 160,719 | - | 160,719 |
| Directors | 31,244 | - | 31,244 |
| Manager's office | 463,252 | - | 463,252 |
| Human resources | 38,681 | - | 38,681 |
| Finance | 173,359 | - | 173,359 |
| Facilities management | 70,291 | - | 70,291 |
| Information systems | 175,698 | - | 175,698 |
| Fire | 783,736 | - | 783,736 |
| Debt Service | | | |
| Principal | - | 1,025,000 | 1,025,000 |
| Interest and fiscal charges | - | 352,195 | 352,195 |
| Total expenditures | <u>5,362,689</u> | <u>1,377,195</u> | <u>6,739,884</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>383,594</u> | <u>(260,784)</u> | <u>122,810</u> |
| Other financing sources (uses) | | | |
| Issuance of contractual obligations | 330,000 | - | 330,000 |
| Transfers in | - | 383,009 | 383,009 |
| Transfers out | (383,009) | - | (383,009) |
| Total other financing sources (uses) | <u>(53,009)</u> | <u>383,009</u> | <u>330,000</u> |
| Net change in fund balance | 330,585 | 122,225 | 452,810 |
| Fund Balances - beginning of year, as restated | <u>2,501,593</u> | <u>117,209</u> | <u>2,618,802</u> |
| Fund Balances - end of year | <u>\$ 2,832,178</u> | <u>\$ 239,434</u> | <u>\$ 3,071,612</u> |

The Notes to Financial Statements are
an integral part of this statement.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2009**

| | |
|--|---------------------|
| Net change in fund balances - total governmental funds | \$ 452,810 |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Depreciation expense on capital assets reported in the statement of activities does not require the use of current financial resources, therefore, depreciation expense is not reported as expenditures in the governmental funds. | (684,019) |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. | 701,809 |
| Governmental funds reflect the proceeds of capital leases as other financing sources and payments as expenditures. However, in the government-wide statements, the proceeds and payments made on capital leases are reflected as changes in liabilities. This amount reflects the payments under capital leases. | 42,886 |
| Repayment of principal on long-term debt reduces long-term liabilities in the statement of net assets, but it is recorded as an expenditure in the governmental funds. | 1,117,504 |
| Governmental funds reflect the proceeds from the issuance of bonds, contractual obligations, and capital leases as other financing sources; however, in the government-wide financial statements the proceeds are reflected as increases in liabilities. | (330,000) |
| Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore they are not reported as expenditures in the governmental funds. | (5,668) |
| Governmental funds report the effects of issuance costs, premiums, and deferred losses on refunding when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. | (3,199) |
| Certain revenues in the government-wide financial statements that do not produce current financial resources are not reported as revenue in the governmental funds. | 9,917 |
| Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | 7,159 |
| Change in net assets of governmental activities | <u>\$ 1,309,199</u> |

The Notes to Basic Financial Statements are an integral part of this statement.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

Trophy Club Municipal Utility District No. 1 (the District) was created by an order of the Texas Commission on Environmental Quality (TCEQ) (formerly the Texas Natural Resources Conservation Commission) on March 4, 1975 and confirmed by the electorate of the District at a confirmation election held on October 7, 1975. The Board of Directors held its first meeting on April 24, 1975. The bonds were first sold on June 8, 1976. The District operates pursuant to Article XVI, Chapter 59 of the Texas Constitution and Chapter 54 of the Texas Water Code, as amended.

On May 9, 2009, citizens voted to consolidate the District and Trophy Club Municipal Utility District No. 2 (MUD2). As a result, the District's fiscal year 2009 financial statements report consolidated activity and balances for the District and the entities formerly known as MUD2 and the Trophy Club Master District Joint Venture (a joint venture of MUD1 and MUD2).

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

B. Financial Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements include the activities of the District and any organizations for which the District is financially accountable or for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval by the primary government. Accordingly, the District has no component units.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the activities of the District, except for fiduciary funds. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The activities of the District are comprised only of governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements. The District does not report any non-major funds.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the District. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Debt Service Fund

The Debt Service Fund is used to account for resources accumulated and payments made for principal and interest on the long-term debt of governmental funds.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Measurement Focus and Basis of Accounting

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available.

"Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenues susceptible to accrual are interest income and ad valorem taxes. All other governmental fund revenues are recognized when received.

E. Cash and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments of three months or less from the date of acquisition.

The District's investment policy requires that all monies be deposited with the authorized District depository or in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the District, and placed through a primary government securities dealer.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

F. Capital Assets

Capital assets, which include property, plant, equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

| | |
|-----------------------------------|---------------|
| Buildings | 50 Years |
| Improvements other than buildings | 15 - 30 Years |
| Machinery and equipment | 6 - 15 Years |
| Vehicles | 6 - 12 Years |
| Water and wastewater systems | 30 - 65 Years |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Accumulated Vacation, Compensated Time and Sick Leave

The District has no employees of its own, but instead, personnel services are furnished under a contract with the Town of Trophy Club, Texas. The District records an allocation of personnel costs from the Town in personnel expense accounts rather than as single line item payable to the Town. Accordingly, the District also records current payroll and an allocation in compensated absences earned by the personnel assigned to it. The District reports this liability using the Town's vacation policy; however, the Town retains primary liability for its employee vacation pay.

H. Organizational Costs

The District, in conformance with requirements of the TCEQ, capitalized costs incurred in the creation of the District. The TCEQ requires capitalization of organizational costs for the construction period, all costs incurred in the issue and sale of bonds, bond interest and amortized bond premium and discount losses on sales of investments, accrued interest on investments purchased, attorney fees and some administrative expenses until construction and acceptance or use of the first revenue producing facility has occurred. The District amortizes the organizational costs using the straight-line method over a period of 22 to 45 years.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

K. Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses/expenditures. Actual results could differ from those estimates.

L. Adopted Accounting Pronouncements

On September 30, 2009, the District adopted the guidance for subsequent events set forth under generally accepted accounting principles. The current guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. Specifically, the guidance set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events, or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The current guidance for accounting for subsequent events provides largely the same guidance on subsequent events which previously existed only in auditing literature. The adoption of the new standard for accounting for subsequent events had no impact on the financial statements as management already followed a similar approach to the adoption of this standard. The District has evaluated subsequent events through January 25, 2010.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At September 30, 2009, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$285,121 and the bank balance was \$290,413. The District's cash deposits at September 30, 2009, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas; (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the District's investment policy authorized the District to invest in the following investments as summarized below:

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|-------------------------------|---------------------|---------------------------------------|--|
| U.S. Treasury Obligations | 2 years | 85% | NA |
| U.S. Agencies Securities | 2 years | 85% | NA |
| State of Texas Securities | 2 years | 85% | NA |
| Certificates of Deposits | 2 years | 85% | NA |
| Municipal Securities | 2 years | 85% | NA |
| Money Market | 2 years | 50% | NA |
| Mutual Funds | 2 years | 50% | NA |
| Investment pools | 2 years | 100% | NA |

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Cash and investments as of September 30, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets

Primary Government:

| | |
|----------------------------|---------------------|
| Cash and cash equivalents | \$ 3,077,898 |
| Restricted cash | 135,976 |
| Total cash and investments | <u>\$ 3,213,874</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Cash and investments as of September 30, 2009 consist of the following:

| | |
|--------------------------------------|---------------------|
| Deposits with financial institutions | \$ 285,121 |
| Investments | <u>2,928,753</u> |
| Total cash and investments | <u>\$ 3,213,874</u> |

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District has no specific limitations with respect to this metric.

As of September 30, 2009, the District had the following investment:

| Investment Type | Amount | Weighted Average Maturity |
|-------------------|---------------------|---------------------------------|
| TexPool | <u>\$ 2,928,753</u> | 44 days |
| Total Investments | <u>\$ 2,928,753</u> | |

As of September 30, 2009, the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

| Investment Type | Amount | Minimum Legal Rating | Rating as of Year End |
|-------------------|---------------------|----------------------------|-----------------------------|
| TexPool | <u>\$ 2,928,753</u> | N/A | AAAm |
| Total Investments | <u>\$ 2,928,753</u> | | |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2009, other than external investment pools, the District did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less FDIC insurance at all times.

As of September 30, 2009 the District deposits with financial institutions were not in excess of federal depository insurance limits.

Investment in State Investment Pools

The District is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. This oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized costs rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 3. ACCOUNTS RECEIVABLE

Receivables as of year-end, including the applicable allowances for uncollectible accounts, are as follows:

| | | |
|---|----|----------------|
| Accounts Receivable: | | |
| MUD water | \$ | 248,831 |
| MUD sewer | | 140,509 |
| Unbilled receivables-MUD#1 | | 79,456 |
| Refuse (as agent for Town of Trophy Club) | | 33,235 |
| Refuse tax (as agent for Town of Trophy Club) | | 2,866 |
| Storm drainage (as agent for Town of Trophy Club) | | <u>11,189</u> |
| | | 516,086 |
| Allowance for uncollectible accounts | | <u>(1,423)</u> |
| Total (net) | \$ | <u>514,663</u> |
| Due From Other Governments: | | |
| Town of Trophy Club | \$ | <u>37,275</u> |

NOTE 4. INTERFUND TRANSFERS

Transfers between funds during the year are as follows:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> | <u>Purpose</u> |
|--------------------|---------------------|-------------------|---------------------|
| Debt Service | General Fund | <u>\$ 383,009</u> | To pay debt service |
| | Total | <u>\$ 383,009</u> | |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2009, was as follows:

| | Beginning Balance as Previously Reported | Adjustments/ Reclassifications | Beginning Balance As Restated | Additions | Retirements/ Transfers | Ending Balance |
|--|---|-----------------------------------|-------------------------------------|------------|---------------------------|-------------------|
| Governmental Activities: | | | | | | |
| Capital assets, not being depreciated | | | | | | |
| Land | \$ 248,093 | \$ - | \$ 248,093 | \$ - | \$ - | \$ 248,093 |
| Construction in progress | 159,886 | - | 159,886 | 214,615 | 374,501 | - |
| Total capital assets not being depreciated | 407,979 | - | 407,979 | 214,615 | 374,501 | 248,093 |
| Capital assets, being depreciated | | | | | | |
| Buildings | 460,917 | 45,873 | 506,790 | - | - | 506,790 |
| Improvements other than buildings | 292,751 | 50 | 292,801 | - | - | 292,801 |
| Machinery and equipment | 594,262 | 144,550 | 738,812 | 473,566 | - | 1,212,378 |
| Organization costs | 3,168,427 | (837,127) | 2,331,300 | - | - | 2,331,300 |
| Vehicles | 1,918,685 | (429,761) | 1,488,924 | 13,628 | - | 1,502,552 |
| Water system | 8,134,787 | - | 8,134,787 | 374,501 | - | 8,509,288 |
| Wastewater treatment system | 5,641,225 | 791,254 | 6,432,479 | - | - | 6,432,479 |
| Wastewater collection system | 4,286,723 | - | 4,286,723 | - | - | 4,286,723 |
| Total capital assets being depreciated | 24,497,777 | (285,161) | 24,212,616 | 861,695 | - | 25,074,311 |
| Less accumulated depreciation for: | | | | | | |
| Buildings | (117,891) | (19,552) | (137,443) | (11,470) | - | (148,913) |
| Improvements other than buildings | (177,475) | - | (177,475) | (11,530) | - | (189,005) |
| Machinery and equipment | (154,349) | (149,165) | (303,514) | (54,755) | - | (358,269) |
| Organization costs | (2,249,827) | 398,868 | (1,850,959) | (82,528) | - | (1,933,487) |
| Vehicles | (1,301,934) | 430,486 | (871,448) | (97,471) | - | (968,919) |
| Water system | (3,026,637) | (4,024) | (3,030,661) | (139,662) | - | (3,170,323) |
| Wastewater treatment system | (1,764,621) | (393,275) | (2,157,896) | (191,857) | - | (2,349,753) |
| Wastewater collection system | (2,090,862) | - | (2,090,862) | (94,746) | - | (2,185,608) |
| Total accumulated depreciation | (10,883,596) | 263,338 | (10,620,258) | (684,019) | - | (11,304,277) |
| Governmental activities capital assets, net | \$14,022,160 | \$ (21,823) | \$14,000,337 | \$ 392,291 | \$ 374,501 | \$14,018,127 |

Depreciation expense was charged as direct expense to programs of the primary government as follows:

| | |
|-------------------------------|-------------------|
| General government | \$ 135,436 |
| Water operations | 200,079 |
| Wastewater operations | 205,551 |
| Wastewater collection systems | 98,198 |
| Information systems | 13,481 |
| Fire | 31,274 |
| Total depreciation expense | <u>\$ 684,019</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT

At September 30, 2009, the District's long-term debt payable consisted of the following:

| Description | Interest Rate Payable | Year of Issue | Final Maturity | Average Annual Payment | Original Amount | Outstanding 9/30/2009 |
|----------------------------|-----------------------------|---------------------|-------------------|------------------------------|--------------------|--------------------------|
| Tax and revenue bonds: | | | | | | |
| Refunding | 3.25-5.90% | 1997 | 2011 | \$398,800 | \$3,075,000 | \$ 745,000 |
| Refunding | 4.00-5.00% | 2003 | 2011 | 253,100 | 1,949,288 | 480,000 |
| Improvements | 4.00-5.00% | 2002 | 2023 | 280,060 | 3,510,000 | 2,800,000 |
| Operations | 4.00-5.00% | 2003 | 2023 | 89,566 | 1,200,000 | 945,000 |
| Refunding | 3.00-4.20% | 2005 | 2023 | 216,786 | 3,143,998 | 2,320,000 |
| | | | | | | <u>\$ 7,290,000</u> |
| Contractual Obligations: | | | | | | |
| Fire Truck | 4.33% | 2007 | 2014 | 56,000 | 448,000 | \$ 322,000 |
| Improvements | 3.50% | 2004 | 2012 | 39,000 | 270,000 | 101,250 |
| Improvements | 3.90% | 2009 | 2012 | 110,000 | 330,000 | 330,000 |
| | | | | | | <u>\$ 753,250</u> |
| Notes payable: | | | | | | |
| Equipment | 2.50% | 1999 | 2018 | 2,245 | 35,000 | \$ 17,895 |
| Capital Lease Obligations: | | | | | | |
| Equipment | 4.95% | 2006 | 2010 | 33,000 | 165,000 | \$ 33,000 |
| Equipment | 4.00% | 2008 | 2012 | 9,886 | 49,432 | 29,660 |
| | | | | | | <u>\$ 62,660</u> |

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2009:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--|----------------------|-------------------|-----------------------|---------------------|------------------------|
| Governmental Activities: | | | | | |
| Tax and revenue bonds | \$ 8,315,000 | \$ - | \$ (1,025,000) | \$ 7,290,000 | \$ 1,055,000 |
| Contractual obligations | 514,000 | 330,000 | (90,750) | 753,250 | 198,570 |
| Deferred loss on refunding | (64,734) | - | 4,413 | (60,321) | (4,414) |
| Premium on bonding | 116,536 | - | (7,943) | 108,593 | 7,943 |
| | <u>8,880,802</u> | <u>330,000</u> | <u>(1,119,280)</u> | <u>8,091,522</u> | <u>1,257,099</u> |
| Notes payable | 19,649 | - | (1,754) | 17,895 | 1,798 |
| Capital lease obligations | 105,546 | - | (42,886) | 62,660 | 42,886 |
| Compensated absences | <u>16,949</u> | <u>5,668</u> | <u>-</u> | <u>22,617</u> | <u>22,617</u> |
| Total Governmental Activities Long-term Liabilities | <u>\$ 9,022,946</u> | <u>\$ 335,668</u> | <u>\$ (1,163,920)</u> | <u>\$ 8,194,694</u> | <u>\$ 1,324,400</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 6. LONG-TERM DEBT – CONTINUED

The annual requirements to amortize all debts outstanding as of September 30, 2009, are as follows:

Tax and revenue bonds:

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|---------------------|---------------------|---------------------|
| 2010 | \$ 1,055,000 | \$ 308,308 | \$ 1,363,308 |
| 2011 | 1,115,000 | 265,189 | 1,380,189 |
| 2012 | 500,000 | 220,567 | 720,567 |
| 2013 | 520,000 | 202,138 | 722,138 |
| 2014 | 330,000 | 182,940 | 512,940 |
| 2015-19 | 1,900,000 | 690,635 | 2,590,635 |
| 2020-23 | 1,870,000 | 219,969 | 2,089,969 |
| Total | <u>\$ 7,290,000</u> | <u>\$ 2,089,746</u> | <u>\$ 9,379,746</u> |

Contractual obligations

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|-------------------|------------------|-------------------|
| 2010 | \$ 198,570 | \$ 30,356 | \$ 228,926 |
| 2011 | 205,696 | 22,493 | 228,189 |
| 2012 | 211,984 | 14,339 | 226,323 |
| 2013 | 67,000 | 5,932 | 72,932 |
| 2014 | 70,000 | 3,031 | 73,031 |
| Total | <u>\$ 753,250</u> | <u>\$ 76,151</u> | <u>\$ 829,401</u> |

Notes payable:

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|------------------|-----------------|------------------|
| 2010 | \$ 1,798 | \$ 447 | 2,245 |
| 2011 | 1,843 | 402 | 2,245 |
| 2012 | 1,889 | 356 | 2,245 |
| 2013 | 1,936 | 309 | 2,245 |
| 2014 | 1,983 | 261 | 2,244 |
| 2015-18 | 8,446 | 534 | 8,980 |
| Total | <u>\$ 17,895</u> | <u>\$ 2,309</u> | <u>\$ 20,204</u> |

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

Capital Lease:

| Year Ending September 30, | Principal | Interest | Total |
|------------------------------|------------------|-----------------|------------------|
| 2010 | \$ 42,886 | \$ 2,859 | \$ 45,745 |
| 2011 | 9,886 | 802 | 10,688 |
| 2012 | 9,888 | 402 | 10,290 |
| Total | <u>\$ 62,660</u> | <u>\$ 4,063</u> | <u>\$ 66,723</u> |

The assets acquired under the capital lease obligations above are included in capital assets at a cost of \$193,622. Accumulated depreciation on the assets as of September 30, 2009 was \$83,298.

The tax revenue bonds are payable from the proceeds of ad valorem taxes levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from, and secured by a lien on and pledge of the net revenue to be received from the operation of the District's waterworks and sanitary sewer system.

The outstanding bonds are callable for redemption prior to maturity at the option of the District as follows:

Series 1997 – All maturities from 2008 to 2011 are callable in principal increments of \$5,000 on or after September 1, 2007 at par plus unpaid accrued interest to the fixed date for redemptions.

Series 2002 – All maturities from 2013 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2012 at par plus unpaid accrued interest to the fixed date for redemptions.

Series 2003 – No bonds are subject to redemption prior to maturity.

Series 2003 (debt issued by the entity formerly known as MUD 2) – All maturities from 2013 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2012 at par plus unpaid accrued interest to the fixed date for redemptions.

Series 2005 – All maturities from 2014 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2013 at par plus unpaid accrued interest to the fixed date for redemptions.

Contractual obligations and notes payable are liquidated from the general fund. Tax and revenue bonds are liquidated from the debt service fund.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 6. LONG-TERM DEBT – CONTINUED

The provisions of the bond resolutions relating to debt service requirements have been met, and the cash allocated for these purposes is sufficient to meet debt service requirements for the year ended September 30, 2009.

In previous years, the District has legally defeased certain outstanding general obligation debt by placing funds into irrevocable trusts pledged to pay all future debt service payments of the refunded debt. Accordingly, a liability for the defeased debt issue is not included in the District's financial statements. As of September 30, 2009, the following outstanding bonds were legally defeased:

| Series | Type | Amount |
|--------|-------------------------------|---------------------|
| 1995 | Unlimited Tax Refunding Bonds | \$ 2,490,000 |
| | | <u>\$ 2,490,000</u> |

NOTE 7. PROPERTY TAXES

Property taxes are levied as of October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the District and MUD2 (the "Districts"). The appraisal of property within the District is the responsibility of Denton Appraisal District (Appraisal District) as required by legislation passed by the Texas legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed every five years; however, the District may, at its own expense, require annual reviews of appraised values. The Districts may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Property taxes for the Districts are not limited as to rate or amount. In an election held October 7, 1975, the electorate of the Districts authorized the levy of up to \$0.25 per \$100 valuation per District for the operations and maintenance of the Districts. Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Property taxes are recorded as receivables when levied. Following is information regarding the 2009 tax levies:

MUD 1:

| | | |
|-------------------------|----------------|-----------------------|
| Adjusted taxable values | | <u>\$ 516,687,776</u> |
| O & M tax levy | \$0.1308/\$100 | \$ 675,880 |
| I & S tax levy | \$0.0942/\$100 | <u>486,668.00</u> |
| Total tax levy | \$0.2250/\$100 | <u>\$ 1,162,548</u> |

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS**

NOTE 7. PROPERTY TAXES-CONTINUED

MUD 2:

| | | |
|-------------------------|----------------|-----------------------|
| Adjusted taxable values | | <u>\$ 413,674,092</u> |
| O & M tax levy | \$0.1293/\$100 | \$ 534,922 |
| I & S tax levy | \$0.1349/\$100 | <u>558,129</u> |
| Total tax levy | \$0.2642/\$100 | <u>\$ 1,093,051</u> |

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. Commercial insurance is purchased for the risks of loss to which the District is exposed. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the District's basic financial statements.

NOTE 9. RESTATEMENT OF BEGINNING FUND BALANCES AND NET ASSETS

As discussed in Note 1, citizens voted in May 2009 to consolidate the District and MUD2. As a result, the beginning fund balances and net assets of the District have been restated to include those of the District, as well as those of the entities formerly known as MUD 2 and the Trophy Club Master District Joint Venture (Master District).

In addition, the District discovered errors in its capital assets records involving \$285,161 of previously disposed of vehicles that were still on the District's capital asset register and several other assets which had been misclassified and incorrectly depreciated. The correction of these errors resulted in a \$21,823 decrease in beginning net assets.

The District's October 1, 2008 Fund Balances have been restated as follows:

| | General Fund | Debt Service Fund | Total |
|----------------------------|---------------------|-------------------------|---------------------|
| MUD 1 | \$ 439,972 | \$ 56,840 | \$ 496,812 |
| MUD 2 | 879,256 | 60,369 | 939,625 |
| Master District | <u>1,182,365</u> | | <u>1,182,365</u> |
| Consolidated fund balances | <u>\$ 2,501,593</u> | <u>\$ 117,209</u> | <u>\$ 2,618,802</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 9. RESTATEMENT OF BEGINNING FUND BALANCES AND NET ASSETS – CONTINUED

The District's October 1, 2008 Net Assets have been restated as follows:

| | | |
|---|------------------|----------------------------|
| Per prior year financial statements | | |
| MUD 1 | \$ 6,168,820 | |
| MUD 2 | 1,560,862 | |
| Master District | <u>7,544,474</u> | |
| | | \$ 15,274,156 |
| To correct capital assets balances (see Note 5) | | |
| | | (21,823) |
| To remove prior year investment in joint venture balance | | |
| | | <u>(7,544,474)</u> |
| Beginning net assets, as restated | | <u><u>\$ 7,707,859</u></u> |

REQUIRED SUPPLEMENTARY INFORMATION

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
YEAR ENDED SEPTEMBER 30, 2009

| | Budgeted amounts | | | Variance with Final Budget Positive (Negative) |
|---|-------------------------|---------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues | | | | |
| Taxes | \$ 1,249,201 | \$ 1,249,199 | \$ 1,283,705 | \$ 34,506 |
| Intergovernmental revenues | 30,058 | 30,058 | 33,653 | 3,595 |
| Water and wastewater charges | 4,169,571 | 4,174,822 | 3,721,868 | (452,954) |
| Standby fees | 1,219 | 1,219 | 819 | (400) |
| Inspection and tap fees | 49,126 | 49,126 | 4,975 | (44,151) |
| Utility fees | 345,000 | 345,000 | 515,200 | 170,200 |
| Investment income | 79,000 | 79,001 | 20,755 | (58,246) |
| Miscellaneous | 142,874 | 137,624 | 165,308 | 27,684 |
| Total revenues | 6,066,049 | 6,066,049 | 5,746,283 | (319,766) |
| Expenditures: | | | | |
| Current | | | | |
| General government | 1,130,194 | 360,071 | 360,067 | 4 |
| Water operations | 2,132,843 | 1,953,074 | 1,811,385 | 141,689 |
| Wastewater operations | 941,907 | 980,192 | 999,388 | (19,196) |
| Wastewater collection system | 460,817 | 345,894 | 294,869 | 51,025 |
| Utility billing | 163,958 | 160,615 | 160,719 | (104) |
| Directors | - | 31,349 | 31,244 | 105 |
| Manager's office | 348,811 | 447,213 | 463,252 | (16,039) |
| Human resources | 39,125 | 39,060 | 38,681 | 379 |
| Finance | 235,957 | 197,484 | 173,359 | 24,125 |
| Facilities management | 90,053 | 90,053 | 70,291 | 19,762 |
| Information systems | 214,252 | 187,243 | 175,698 | 11,545 |
| Fire | 861,387 | 861,387 | 783,736 | 77,651 |
| Total expenditures | 6,619,304 | 5,653,635 | 5,362,689 | 290,946 |
| Excess (deficiency) of revenues over expenditures | (553,255) | 412,414 | 383,594 | (28,820) |
| Other financing sources (uses): | | | | |
| Issuance of contractual obligations | 1,465,500 | 725,250 | 330,000 | (395,250) |
| Transfers out | (157,547) | (182,547) | (383,009) | (200,462) |
| Total other financing sources (uses) | 1,307,953 | 542,703 | (53,009) | (595,712) |
| Net change in fund balance | 754,698 | 955,117 | 330,585 | (624,532) |
| Fund Balances - beginning of year | 2,501,593 | 2,501,593 | 2,501,593 | - |
| Fund Balances - end of year | <u>\$ 3,256,291</u> | <u>\$ 3,456,710</u> | <u>\$ 2,832,178</u> | <u>\$ (624,532)</u> |

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGETARY CONTROL

The District Board (Board) adopts an annual budget for the General Fund on a budgetary basis, which consists of accounting on the modified accrual basis excepting recognition of non-cash grant and capital lease proceeds and related expenditures for equipment. The District also does not budget developer contributions of infrastructure.

The Board approves all budget appropriations. Any revisions which alter the total appropriations must be approved by the Board. The level of budgetary responsibility is by total appropriations of the fund.

All annual appropriations lapse at fiscal year end.

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**INDIVIDUAL SCHEDULES AND OTHER
SUPPLEMENTARY INFORMATION REQUIRED
BY TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY (TCEQ)**

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2009**

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|-------------------------|------------------|-------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Taxes | \$ 1,084,648 | \$ 1,084,648 | \$ 1,112,306 | \$ 27,658 |
| Investment income | 25,000 | 25,000 | 4,105 | (20,895) |
| Total revenues | 1,109,648 | 1,109,648 | 1,116,411 | 6,763 |
| Expenditures: | | | | |
| Debt service | | | | |
| Principal | 1,025,000 | 1,025,000 | 1,025,000 | - |
| Interest | 352,196 | 352,196 | 352,195 | 1 |
| Total expenditures | 1,377,196 | 1,377,196 | 1,377,195 | 1 |
| Excess (deficiency) of revenues under expenditures | (267,548) | (267,548) | (260,784) | 6,764 |
| Other financing sources | | | | |
| Transfers in | 157,548 | 157,548 | 383,009 | 225,461 |
| Total other financing sources | 157,548 | 157,548 | 383,009 | 225,461 |
| Net change in fund balance | (110,000) | (110,000) | 122,225 | 232,225 |
| Fund Balances - beginning of year | 117,209 | 117,209 | 117,209 | - |
| Fund Balances - end of year | <u>\$ 7,209</u> | <u>\$ 7,209</u> | <u>\$ 239,434</u> | <u>\$ 232,225</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 1
SERVICE AND RATES
YEAR ENDED SEPTEMBER 30, 2009

TSI – 1 SERVICE AND RATES

1. Services provided by the District:

- a) Retail Water
- b) Retail Wastewater
- c) Fire Protection
- d) Irrigation
- e) Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

2. Retail service providers:

a) Retail rates-based on 5/8" meter:

Most prevalent type of meter (if not a 5/8"):

1 inch

| | Admin Fee | Minimum Usage | Flat Rate Y/N | Rates per 1,000 Gallons Over Minimum | Usage Levels |
|-------|--------------|------------------|---------------------|--|------------------|
| WATER | \$ 11.50 | 0 | No | \$ 2.25 | 0 to 6,000 |
| | | | No | 2.71 | 7,000 to 12,000 |
| | | | No | 2.92 | 13,000 to 25,000 |
| | | | No | 3.02 | More than 25,000 |

Note: Out of district water rates are double the "in-town" rate and are included in the rate order.

| | | | | | |
|------------|----------|---|----|---------|-----------------|
| WASTEWATER | \$ 11.50 | 0 | No | \$ 2.25 | 0 to 6,000 |
| | | | No | 2.71 | 7,000 to 12,000 |
| | | | No | - | Caps at 12,000 |

GOLF COURSE Subject to peak draw rates from Ft Worth water department.

NOTE: all rates noted above were amended effective January 1, 2009

District employs winter averaging for wastewater usage? No

Total water and wastewater charges per 10,000 gallons usage (including surcharges) effective January 1, 2009

| | |
|---|----------|
| First 10,000 gallons used | \$ 71.68 |
| Next 10,000 gallons used | 34.20 |
| Next 10,000 gallons used | 29.70 |
| Next 10,000 gallons used and subsequent | 30.20 |

Maximum residential wastewater charge is for 12,000 gallons or \$41.26.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 1 (CONTINUED)
SERVICE AND RATES
YEAR ENDED SEPTEMBER 30, 2009

TSI – 1 SERVICE AND RATES – CONTINUED

- b) Retail service providers: number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC).

| Meter Size | Connections | | ESFC Factor | Active ESFC's |
|------------------|----------------|----------------|-------------|----------------|
| | Total | Active | | |
| Unmetered | - | - | 1.0 | - |
| Less than 3/4" | 2,509.0 | 2,501.0 | 1.0 | 2,501.0 |
| 1" | 535.0 | 519.0 | 2.5 | 1,297.5 |
| 1 1/2" | 13.0 | 12.0 | 5.0 | 60.0 |
| 2" | 74.0 | 69.0 | 8.0 | 552.0 |
| 3" | 12.0 | 11.0 | 15.0 | 165.0 |
| 4" | 11.0 | 11.0 | 25.0 | 275.0 |
| 6" | 2.0 | 2.0 | 50.0 | 100.0 |
| 8" | - | - | 80.0 | - |
| 10" | - | - | 115.0 | - |
| Total Water | <u>3,156.0</u> | <u>3,125.0</u> | | <u>4,950.5</u> |
| Total Wastewater | <u>3,161.0</u> | <u>3,130.0</u> | 1.0 | <u>3,130.0</u> |

- * Number of connections relates to water service if provided. Otherwise, the number of wastewater connections should be provided.

Note: "inactive" means that water and wastewater connections were made, but service is not being provided.

Total water consumption (in thousands) during the fiscal year:

| | |
|--------------------------------|---------|
| Gallons pumped into the system | 763,859 |
| Gallons billed to customers | 686,466 |
| Water accountability ratio | 89.9% |

Standby Fees:

Does the District assess standby fees? Yes

For the most recent fiscal year, FY2009:

| | Total Levy | Total Collected | Percentage Collected |
|----------------------------|--------------|-----------------|----------------------|
| Debt Service | \$ 1,102,598 | \$ 1,091,526 | 99.0% |
| Operations and Maintenance | \$ 1,278,081 | \$ 1,263,853 | 98.9% |

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? No**

- ** Standby fees are levied by the District and constitute a lien under recorded deed restrictions or covenants pursuant to Section 293.150 of Title 30 of Texas Administrative Code.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 1 (CONTINUED)
SERVICE AND RATES
YEAR ENDED SEPTEMBER 30, 2009**

TSI – 1 SERVICE AND RATES – CONTINUED

5. Location of District:

| | | |
|---|---------------------|---------|
| Counties in which District is located: | a) Denton | |
| | b) Tarrant | |
| Is the District located entirely in one county? | No | |
| Is the District located within a city? | Partially | |
| Cities in which District is located: | Town of Trophy Club | |
| | Town of Westlake | |
| Is District located within a city's extra territorial jurisdiction (ETJ)? | | Unknown |
| ETJ's in which District is located: | | Unknown |
| Is the general membership of the Board appointed by an office outside the District? | No | |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI - 2
GENERAL FUND EXPENDITURES AND OTHER FINANCING USES
YEAR ENDED SEPTEMBER 30, 2009

| | <u>Current Year</u> | <u>Prior Year</u> |
|--|---------------------|---------------------|
| Administrative | \$ 1,297,613 | \$ 905,052 |
| Water Operations | 1,811,385 | 1,934,792 |
| Wastewater Operations | 538,006 | 500,224 |
| Wastewater Collection Systems | 294,869 | 409,948 |
| Information Systems | 175,698 | 187,908 |
| Contribution to Trophy Club Fire Dept | 783,736 | 902,353 |
| Capital Outlay | 461,382 | - |
| Miscellaneous | - | 45,457 |
| Transfer to Debt Service Fund | <u>383,009</u> | <u>29,379</u> |
| Total Expenditures and Other Financing Uses | <u>\$ 5,745,698</u> | <u>\$ 4,915,113</u> |

Number of employees employed by the District:

| | | |
|------------------------------|------|------|
| Full time Equivalents (FTEs) | 34 * | 20 |
| Part time | None | None |

*Note: For fiscal year 2008-2009, fire department operations, including 9 FTE's, were transferred to the MUD

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 3
TEMPORARY INVESTMENTS
SEPTEMBER 30, 2009

| <u>Funds</u> | <u>Identification Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance End of Year</u> | <u>Accrued Interest End of Year</u> |
|------------------------------|----------------------------------|--------------------------|--------------------------|--------------------------------|---|
| General Fund TexPool | 613300002 | 0.2303% | Demand | \$ 203,649 | Paid daily |
| Debt Service Fund TexPool | 613300003 | 0.2303% | Demand | \$ 238,934 | Paid daily |
| Fire Department TexPool | 613300004 | 0.2303% | Demand | \$ 104,269 | Paid daily |
| Systems Account TexPool | 613300005 | 0.2303% | Demand | \$ 384,391 | Paid daily |
| GASB 34 Reserves TexPool | 613300006 | 0.2303% | Demand | \$ 78,681 | Paid daily |
| Customer Deposits TexPool | 613300007 | 0.2303% | Demand | \$ 135,976 | Paid daily |
| Fire Construction TexPool | 613300008 | 0.2303% | Demand | <u>\$ 1,782,853</u> | Paid daily |
| Total - All Funds | | | | <u><u>\$ 2,928,753</u></u> | |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

TSI - 4

**TAXES LEVIED AND RECEIVABLE
YEAR ENDED SEPTEMBER 30, 2009**

| | General Fund | | | Debt Service | |
|------------------------------------|--------------|-------------|-------------|--------------|-------------|
| | Operations | Fire | Total | | Total |
| Taxes receivable beginning of year | \$ 2,251 | \$ 15,580 | \$ 17,831 | \$ 27,769 | \$ 45,600 |
| 2008 tax levy | 138,704 | 1,139,377 | 1,278,081 | 1,102,598 | 2,380,679 |
| Total to be accounted for | 140,955 | 1,154,957 | 1,295,912 | 1,130,367 | 2,426,279 |
| Less collections and adjustments: | | | | | |
| Current year | (137,122) | (1,126,731) | (1,263,853) | (1,091,526) | (2,355,379) |
| Prior years | (821) | (5,710) | (6,531) | (8,658) | (15,189) |
| Total to be accounted for | (137,943) | (1,132,441) | (1,270,384) | (1,100,184) | (2,370,568) |
| Taxes receivable, end of year | \$ 3,012 | \$ 22,516 | \$ 25,528 | \$ 30,183 | \$ 55,711 |

Taxes receivable by year

| | | | | | |
|----------------|----------|-----------|-----------|-----------|-----------|
| 1996 and prior | 19 | 108 | 127 | 454 | 581 |
| 1997 | 7 | 41 | 48 | 150 | 198 |
| 1998 | 7 | 44 | 51 | 140 | 191 |
| 1999 | 34 | 239 | 273 | 543 | 816 |
| 2000 | 33 | 165 | 198 | 598 | 796 |
| 2001 | 34 | 134 | 168 | 441 | 609 |
| 2002 | 512 | 4,590 | 5,102 | 10,196 | 15,298 |
| 2003 | 70 | 126 | 196 | 132 | 328 |
| 2004 | 20 | 165 | 185 | 239 | 424 |
| 2005 | 153 | 459 | 612 | 769 | 1,381 |
| 2006 | 276 | 1,268 | 1,544 | 2,114 | 3,658 |
| 2007 | 265 | 2,531 | 2,796 | 3,335 | 6,131 |
| 2008 | 1,582 | 12,646 | 14,228 | 11,072 | 25,300 |
| | \$ 3,012 | \$ 22,516 | \$ 25,528 | \$ 30,183 | \$ 55,711 |

Property valuations (in 000's)

| | F/Y 08/09 | F/Y 07/08 | F/Y 06/07 | F/Y 05/06 | F/Y 04/05 |
|-------------------|--------------|--------------|--------------|--------------|--------------|
| Land | \$ 186,574 | \$ 213,640 | \$ 193,906 | \$ 166,046 | \$ 171,370 |
| Improvements | 737,273 | 638,560 | 581,667 | 518,213 | 501,417 |
| Personal property | 71,091 | 94,823 | 65,248 | 68,356 | 50,577 |
| Exemptions | (34,027) | (34,405) | (29,607) | (8,422) | (14,794) |
| | \$ 960,911 | \$ 912,618 | \$ 811,214 | \$ 744,193 | \$ 708,570 |

Tax rate per \$100 valuation

| | | | | | |
|------------------------------|----------|--------|--------|--------|--------|
| Operations | 0.014040 | 0.0102 | 0.0309 | 0.0309 | 0.0600 |
| Fire department | 0.116020 | 0.1209 | 0.1027 | 0.1464 | 0.1076 |
| Debt service | 0.114555 | 0.0989 | 0.1464 | 0.1027 | 0.1124 |
| Tax rate per \$100 valuation | 0.244615 | 0.2300 | 0.2800 | 0.2800 | 0.2800 |

| | | | | | |
|-----------|--------------|--------------|--------------|--------------|--------------|
| Tax levy: | \$ 2,380,679 | \$ 2,234,909 | \$ 2,191,536 | \$ 2,271,746 | \$ 2,164,427 |
|-----------|--------------|--------------|--------------|--------------|--------------|

| | | | | | |
|--|--------|---------|---------|--------|--------|
| Percent of taxes collected to taxes levied | 99.58% | 100.36% | 100.62% | 98.04% | 99.99% |
|--|--------|---------|---------|--------|--------|

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 5
LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
SEPTEMBER 30, 2009

| All Bonded Debt Series | | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 1,055,000 | \$ 308,308 | \$ 1,363,308 |
| 2011 | 1,115,000 | 265,189 | 1,380,189 |
| 2012 | 500,000 | 220,567 | 720,567 |
| 2013 | 520,000 | 202,138 | 722,138 |
| 2014 | 330,000 | 182,940 | 512,940 |
| 2015 | 345,000 | 169,205 | 514,205 |
| 2016 | 360,000 | 154,655 | 514,655 |
| 2017 | 380,000 | 139,210 | 519,210 |
| 2018 | 395,000 | 122,610 | 517,610 |
| 2019 | 420,000 | 104,955 | 524,955 |
| 2020 | 435,000 | 85,829 | 520,829 |
| 2021 | 455,000 | 66,010 | 521,010 |
| 2022 | 480,000 | 45,100 | 525,100 |
| 2023 | 500,000 | 23,030 | 523,030 |
| | <u>\$ 7,290,000</u> | <u>\$ 2,089,746</u> | <u>\$ 9,379,746</u> |

| Series 2005 Combination Tax Bonds | | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 265,000 | \$ 87,271 | \$ 352,271 |
| 2011 | 285,000 | 78,660 | 363,660 |
| 2012 | 290,000 | 68,685 | 358,685 |
| 2013 | 295,000 | 58,535 | 353,535 |
| 2014 | 100,000 | 48,210 | 148,210 |
| 2015 | 105,000 | 44,210 | 149,210 |
| 2016 | 105,000 | 40,010 | 145,010 |
| 2017 | 110,000 | 35,810 | 145,810 |
| 2018 | 115,000 | 31,410 | 146,410 |
| 2019 | 120,000 | 26,810 | 146,810 |
| 2020 | 125,000 | 22,010 | 147,010 |
| 2021 | 130,000 | 17,010 | 147,010 |
| 2022 | 135,000 | 11,550 | 146,550 |
| 2023 | 140,000 | 5,880 | 145,880 |
| | <u>\$ 2,320,000</u> | <u>\$ 576,061</u> | <u>\$ 2,896,061</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 5
LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
SEPTEMBER 30, 2009

| Series 2003 Unlimited Tax Bonds | | | |
|-----------------------------------|------------------------|------------------------------|-------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 235,000 | \$ 15,012 | \$ 250,012 |
| 2011 | 245,000 | 7,963 | 252,963 |
| | <u>\$ 480,000</u> | <u>\$ 22,975</u> | <u>\$ 502,975</u> |

| Series 2003 Combination Tax Bonds | | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 50,000 | \$ 37,152 | \$ 87,152 |
| 2011 | 55,000 | 35,278 | 90,278 |
| 2012 | 55,000 | 33,215 | 88,215 |
| 2013 | 60,000 | 31,290 | 91,290 |
| 2014 | 60,000 | 29,430 | 89,430 |
| 2015 | 60,000 | 27,090 | 87,090 |
| 2016 | 65,000 | 24,750 | 89,750 |
| 2017 | 70,000 | 22,150 | 92,150 |
| 2018 | 70,000 | 19,350 | 89,350 |
| 2019 | 75,000 | 16,375 | 91,375 |
| 2020 | 75,000 | 13,186 | 88,186 |
| 2021 | 80,000 | 10,000 | 90,000 |
| 2022 | 85,000 | 6,800 | 91,800 |
| 2023 | 85,000 | 3,400 | 88,400 |
| | <u>\$ 945,000</u> | <u>\$ 309,466</u> | <u>\$ 1,254,466</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 5
LONG-TERM DEBT SERVICE REQUIREMENTS – BY YEAR
SEPTEMBER 30, 2009

| Series 2002 Combination Tax Bonds | | | |
|-----------------------------------|------------------------|------------------------------|---------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 140,000 | \$ 132,368 | \$ 272,368 |
| 2011 | 150,000 | 124,668 | 274,668 |
| 2012 | 155,000 | 118,667 | 273,667 |
| 2013 | 165,000 | 112,313 | 277,313 |
| 2014 | 170,000 | 105,300 | 275,300 |
| 2015 | 180,000 | 97,905 | 277,905 |
| 2016 | 190,000 | 89,895 | 279,895 |
| 2017 | 200,000 | 81,250 | 281,250 |
| 2018 | 210,000 | 71,850 | 281,850 |
| 2019 | 225,000 | 61,770 | 286,770 |
| 2020 | 235,000 | 50,633 | 285,633 |
| 2021 | 245,000 | 39,000 | 284,000 |
| 2022 | 260,000 | 26,750 | 286,750 |
| 2023 | 275,000 | 13,750 | 288,750 |
| | <u>\$ 2,800,000</u> | <u>\$ 1,126,119</u> | <u>\$ 3,926,119</u> |

| Series 1997 Combination Tax Bonds | | | |
|-----------------------------------|------------------------|------------------------------|-------------------|
| Due During Fiscal Years Ending | Principal Due 1-Sep | Interest Due Mar 1/ Sep 1 | Total |
| 2010 | \$ 365,000 | \$ 36,505 | \$ 401,505 |
| 2011 | 380,000 | 18,620 | 398,620 |
| | <u>\$ 745,000</u> | <u>\$ 55,125</u> | <u>\$ 800,125</u> |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI - 6
CHANGES IN LONG-TERM BONDED DEBT
YEAR ENDED SEPTEMBER 30, 2009

| | Series 1997 Combination Tax | Series 2002 Combination Tax | Series 2003 Combination Tax | Series 2003 Unlimited Tax | Series 2005 Combination Tax | Total |
|--|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|-----------------------------------|---------------------|
| Interest rate | 3.25-5.9% | 4.00-5.50% | 3.10-4.25% | 3.25% | 2.97-4.20% | |
| Date interest payable | 3/1 & 9/1 | 3/1 & 9/1 | 3/1 & 9/1 | 3/1 & 9/1 | 3/1 & 9/1 | |
| Maturity date | 9/1/98 to 9/1/2011 | 9/1/2023 | 9/1/2023 | 9/1/2001 | 9/1/2023 | |
| Bonds outstanding at beginning of year | \$ 1,090,000 | \$ 2,935,000 | \$ 995,000 | \$ 715,000 | \$ 2,580,000 | \$ 8,315,000 |
| Retirements of principal | (345,000) | (135,000) | (50,000) | (235,000) | (260,000) | (1,025,000) |
| Bonds outstanding at end of fiscal year | <u>\$ 745,000</u> | <u>\$ 2,800,000</u> | <u>\$ 945,000</u> | <u>\$ 480,000</u> | <u>\$ 2,320,000</u> | <u>\$ 7,290,000</u> |
| Retirements of interest | <u>\$ 68,575</u> | <u>\$ 28,015</u> | <u>\$ 28,015</u> | <u>\$ 28,015</u> | <u>\$ 28,015</u> | <u>\$ 180,635</u> |

Paying agent's name & city:

All Series

Bank of New York Mellon
P.O. Box 2320
Dallas, Texas 75221-2320

| Bond Authority | General Obligation Bonds |
|-----------------------------|--------------------------------|
| Amount authorized by voters | \$ 27,094,217 |
| Amount issued | <u>(21,325,000)</u> |
| Remaining to be issued | <u>\$ 5,769,217</u> |

The general obligation bonds were authorized on October 7, 1975

Debt Service Fund cash and cash equivalents balance as of September 30, 2009: \$ 239,434

Average annual debt service payment (principal & interest) for remaining term of debt: \$ 669,982

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI – 7
GENERAL FUND
COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES
AND EXPENDITURES AND OTHER FINANCING USES – FIVE YEARS

SEPTEMBER 30, 2009

| REVENUE AND OTHER FINANCING SOURCES | Amounts | | | | | Percent of total revenue | | | | |
|---|-------------------|------------------|---------------------|-------------------|-------------------|--------------------------|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2009 | 2008 | 2007 | 2006 | 2005 |
| Ad valorem property taxes | \$ 1,283,705 | \$ 1,002,808 | \$ 909,495 | \$ 1,038,439 | \$ 894,343 | 21.1% | 20.3% | 21.0% | 19.3% | 20.3% |
| Water and wastewater charges | 3,721,888 | 3,678,859 | 3,151,144 | 4,005,608 | 3,355,439 | 61.3% | 74.5% | 72.8% | 74.5% | 76.3% |
| Utility Fees | 515,200 | - | - | - | - | 8.5% | 0.0% | 0.0% | 0.0% | 0.0% |
| Inspection and tap fees | 4,975 | 22,550 | 32,900 | 42,725 | 79,625 | 0.1% | 0.0% | 0.8% | 0.8% | 1.8% |
| Interest earned | 20,755 | 89,447 | 108,188 | 57,329 | 21,840 | 0.3% | 1.4% | 2.5% | 1.1% | 0.5% |
| Capital lease proceeds/contractual obligations | 330,000 | 49,432 | - | 165,000 | - | 5.4% | 1.0% | 0.0% | 3.1% | 0.0% |
| Miscellaneous and other | 198,780 | 116,295 | 131,124 | 71,151 | 45,937 | 3.3% | 2.4% | 3.0% | 1.3% | 1.0% |
| Total revenue and other financing sources | 6,078,283 | 4,838,191 | 4,330,831 | 5,380,252 | 4,387,184 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | | | | |
| Administrative | 1,297,613 | 905,052 | 835,590 | 769,846 | 806,272 | 21.4% | 18.3% | 19.3% | 14.3% | 18.3% |
| Water operations | 1,811,385 | 1,934,782 | 1,838,294 | 1,916,008 | 1,832,987 | 29.8% | 39.2% | 37.8% | 35.6% | 37.1% |
| Wastewater operations | 999,358 | 500,224 | 480,798 | 489,292 | 488,513 | 16.4% | 10.1% | 11.1% | 8.7% | 10.7% |
| Wastewater collection system | 294,869 | 409,848 | 402,482 | 875,422 | 328,419 | 4.9% | 8.3% | 9.3% | 12.5% | 7.5% |
| Information systems | 175,658 | 187,808 | 124,887 | 60,557 | 55,476 | 2.9% | 3.8% | 2.9% | 1.1% | 1.3% |
| Contribution to Trophy Club Fire Dept | 783,736 | 902,353 | 725,764 | 724,738 | 579,873 | 12.9% | 18.3% | 16.8% | 13.5% | 13.2% |
| Contribution to joint venture | - | - | - | - | 95,000 | 0.0% | 0.0% | 0.0% | 0.0% | 2.2% |
| Capital outlay | - | 29,379 | 442,782 | 31,381 | 26,878 | 0.0% | 0.6% | 10.2% | 0.6% | 0.6% |
| Miscellaneous | 383,009 | 45,457 | 135,121 | 67,054 | 200,454 | 6.3% | 0.9% | 3.1% | 1.2% | 4.6% |
| Total expenditures and other financing uses | 5,745,688 | 4,915,113 | 4,785,818 | 4,712,096 | 4,193,672 | 94.6% | 99.5% | 110.5% | 87.6% | 95.4% |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | \$ 330,585 | \$ 24,078 | \$ (454,987) | \$ 668,154 | \$ 203,512 | 5.4% | 0.5% | -10.5% | 12.4% | 4.6% |
| Total active retail water and/or wastewater connections | 3,181 | 3,092 | 2,827 | 2,799 | 2,794 | | | | | |

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI - 7
DEBT SERVICE FUND
COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES
AND EXPENDITURES AND OTHER FINANCING USES - FIVE YEARS

SEPTEMBER 30, 2009

TSI - 7 COMPARATIVE SCHEDULES OF REVENUES AND OTHER FINANCING SOURCES AND EXPENDITURES AND OTHER FINANCING USES - FIVE YEARS - CONTINUED

| | Amounts | | | | | Percent of total revenue | | | | |
|---|-------------------|--------------------|------------------|------------------|---------------------|--------------------------|---------------|---------------|---------------|---------------|
| | 2009 | 2008 | 2007 | 2006 | 2005 | 2009 | 2008 | 2007 | 2006 | 2005 |
| REVENUE AND OTHER FINANCING SOURCES | | | | | | | | | | |
| Ad valorem property taxes | 1,100,081 | 1,302,763 | 1,325,143 | \$ 1,309,781 | \$ 1,357,464 | 73.4% | 96.1% | 94.8% | 94.7% | 97.2% |
| Penalties and interest | 12,225 | - | - | - | 4,558 | 0.8% | 0.0% | 0.0% | 0.0% | 0.3% |
| Transfers in | 383,009 | - | - | - | 4,558 | 25.5% | 0.0% | 0.0% | 0.0% | 0.3% |
| Interest earned | 4,105 | 23,326 | 43,456 | 32,279 | 18,724 | 0.3% | 1.7% | 3.1% | 2.3% | 1.3% |
| Miscellaneous and other | - | 29,379 | 29,379 | 41,210 | 11,831 | 0.0% | 2.2% | 2.1% | 3.0% | 0.8% |
| Total revenue and other financing sources | 1,499,420 | 1,355,468 | 1,397,978 | 1,383,270 | 1,397,135 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| EXPENDITURES AND OTHER FINANCING USES | | | | | | | | | | |
| Principal retirement | 1,025,000 | 975,000 | 945,000 | 636,635 | 752,795 | 68.4% | 71.9% | 67.6% | 46.0% | 53.9% |
| Interest and fiscal charges | 352,195 | 390,565 | 425,838 | 728,740 | 806,970 | 23.5% | 28.8% | 30.5% | 52.7% | 57.8% |
| Total expenditures and other financing uses | 1,377,195 | 1,365,565 | 1,370,838 | 1,365,375 | 1,559,765 | 91.8% | 100.7% | 98.1% | 98.7% | 111.6% |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | \$ 122,225 | \$ (10,097) | \$ 27,140 | \$ 17,895 | \$ (162,630) | 8.2% | -0.7% | 1.9% | 1.3% | -11.6% |

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No.: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP (FORMERLY KNOWN AS FINANCIAL SECURITY ASSURANCE INC.) has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.
(FORMERLY KNOWN AS FINANCIAL
SECURITY ASSURANCE INC.)

By _____
Authorized Officer

(212) 826-0100

Form 500NY (5/90)

TCMUD002179

Financial Advisory Services
Provided By:

SWS | SOUTHWEST
GROUP | SECURITIES
Building what you value.

INVESTMENT BANKERS

TRANSCRIPT OF PROCEEDINGS
RELATING TO

\$2,355,000
Trophy Club Municipal Utility District No. 1
Unlimited Tax Refunding Bonds,
Series 2012

Dated: March 5, 2012



717 North Harwood, Ninth Floor • Dallas, Texas 75201 • Phone: (214) 754-9200

\$2,355,000
Trophy Club Municipal Utility District No. 1
Unlimited Tax Refunding Bonds,
Series 2012

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TAB 1

CERTIFICATE FOR ORDER

THE STATE OF TEXAS
COUNTIES OF DENTON AND TARRANT
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

We, the undersigned officers of the Board of Directors of said District, hereby certify as follows:

1. The Board of Directors of said District convened in REGULAR MEETING ON DECEMBER 20, 2011, at the designated meeting place, and the roll was called of the duly constituted officers and members of said Board, to wit:

Jim Moss, President
Nick Sanders, Vice President
Kevin Carr, Secretary/Treasurer
Bill Armstrong, Director
Jim Thomas, Director

and all of said persons were present, except the following absentees: None,
thus constituting a quorum. Whereupon, among other business, the following was transacted at said Meeting: a written

ORDER AUTHORIZING THE ISSUANCE OF TROPHY CLUB MUNICIPAL
UTILITY DISTRICT NO. 1 UNLIMITED TAX REFUNDING BONDS; LEVYING AN
AD VALOREM TAX IN SUPPORT OF THE BONDS; APPROVING AN OFFICIAL
STATEMENT; AUTHORIZING THE EXECUTION OF A PAYING
AGENT/REGISTRAR AGREEMENT AND AN ESCROW AGREEMENT;
ESTABLISHING PROCEDURES FOR SELLING AND DELIVERING THE BONDS;
AND AUTHORIZING OTHER MATTERS RELATED TO THE ISSUANCE OF THE
BONDS

was duly introduced for the consideration of said Board and read in full. It was then duly moved and seconded that said Order be passed; and, after due discussion, said motion, carrying with it the passage of said Order, prevailed and carried with all members present voting "AYE" except the following:

NAY: 0 ABSTAIN: 0

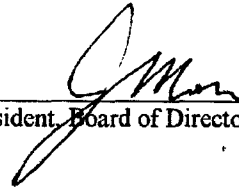
2. That a true, full, and correct copy of the aforesaid Order passed at the Meeting described in the above and foregoing paragraph is attached to and follows this Certificate; that said Order has been duly recorded in said Board's minutes of said Meeting; that the above and foregoing paragraph is a true, full, and correct excerpt from said Board's minutes of said Meeting pertaining to the passage of said Order; that the persons named in the above and foregoing paragraph are the duly chosen, qualified, and acting officers and members of said Board as indicated therein; that each of the officers and members of said Board was duly and sufficiently notified officially and personally, in advance, of the time, place, and purpose of the aforesaid Meeting, and that said Order would be introduced and considered for passage at said Meeting, and each of said officers and members consented, in advance, to the holding of said Meeting for such purpose; and that said Meeting was open to the public, and public notice of the time, place, and purpose of said Meeting was given all as required by the Texas Government Code, Chapter 551.

3. The President of the Board of Directors has approved and hereby approves the aforesaid Order; and the President and the Secretary/Treasurer of the Board of Directors hereby declare that their signing of this certificate shall constitute the signing of the attached and following copy of said Order for all purposes.

SIGNED AND SEALED the 20th day of December, 2011.



Secretary/Treasurer, Board of Directors



President, Board of Directors

