

Section 4.04. List of Security Holders.

The Bank will provide the Issuer at any time requested by the Issuer, upon payment of the required fee, a copy of the information contained in the Security Register. The Issuer may also inspect the information contained in the Security Register at any time the Bank is customarily open for business, provided that reasonable time is allowed the Bank to provide an up-to-date listing or to convert the information into written form.

The Bank will not release or disclose the contents of the Security Register to any person other than to, or at the written request of, an authorized officer or employee of the Issuer, except upon receipt of a court order or as otherwise required by law. Upon receipt of a court order or other notice of a legal proceeding and prior to the release or disclosure of any of the contents of the Security Register, the Bank will notify the Issuer so that the Issuer may contest the same or such release or disclosure of the contents of the Security Register.

Section 4.05. Return of Cancelled Certificates.

The Bank will, at such reasonable intervals as it determines, surrender to the Issuer, Securities in lieu of which or in exchange for which other Securities have been issued, or which have been paid.

Section 4.06. Mutilated, Destroyed, Lost or Stolen Securities.

The Issuer hereby instructs the Bank, subject to the applicable provisions of the Order, to deliver and issue Securities certificates in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities certificates as long as the same does not result in an overissuance.

In case any Security shall be mutilated, or destroyed, lost or stolen, the Bank, in its discretion, may execute and deliver a replacement Security of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Security, or in lieu of and in substitution for such destroyed lost or stolen Security, only after (i) the filing by the Holder thereof with the Bank of evidence satisfactory to the Bank of the destruction, loss or theft of such Security, and of the authenticity of the ownership thereof and (ii) the furnishing to the Bank of indemnification in an amount satisfactory to hold the Issuer and the Bank harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Security shall be borne by the Holder of the Security mutilated, or destroyed, lost or stolen.

Section 4.07. Transaction Information to Issuer.

The Bank will, within a reasonable time after receipt of written request from the Issuer, furnish the Issuer information as to the Securities certificates it has paid pursuant to Section 3.01, Securities certificates it has delivered upon the transfer or exchange of any Securities certificates pursuant to Section 4.01, and Securities certificates it has delivered in exchange for or in lieu of mutilated, destroyed, lost, or stolen Securities certificates pursuant to Section 4.06.

ARTICLE FIVE THE BANK

Section 5.01. Duties of Bank.

The Bank undertakes to perform the duties set forth herein and agrees to use reasonable care in the performance thereof.

The Bank is also authorized to transfer funds relating to the closing and initial delivery of the securities in the manner disclosed in the closing memorandum as prepared by the Issuer's Financial Advisor or other agent. The Bank may act on facsimile or e-mail transmission of the closing memorandum acknowledged by the Financial Advisor or the Issuer as the final closing memorandum. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Section 5.02. Reliance on Documents, Etc.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished to the Bank by the Issuer.

(b) The Bank shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proven that the Bank was negligent in ascertaining the pertinent facts.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any Order, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Securities, but is protected in acting upon receipt of Securities certificates containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the Holder or an agent of the Holder. The Bank shall not be bound to make any investigation into the facts or matters stated in a Order, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, note, security, or other paper or document supplied by the Issuer.

(e) The Bank may consult with legal counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to

any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon, provided that any such written advice or opinion is supplied to the Issuer by the Bank.

(f) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

Section 5.03. Recitals of Issuer.

The recitals contained herein with respect to the Issuer and in the Securities shall be taken as the statements of the Issuer, and the Bank assumes no responsibility for their correctness.

The Bank shall in no event be liable to the Issuer, any Holder or Holders of any Security, or any other Person for any amount due on any Security from its own funds.

Section 5.04. May Hold Securities.

The Bank, in its individual or any other capacity, may become the owner or pledgee of Securities and may otherwise deal with the Issuer with the same rights it would have if it were not the Paying Agent/Registrar, or any other agent.

Section 5.05. Moneys Held by Bank.

The Bank shall deposit any moneys received from the Issuer into a segregated account to be held by the Bank solely for the benefit of the owners of the Securities to be used solely for the payment of the Securities, with such moneys in the account that exceed the deposit insurance available to the Issuer by the Federal Deposit Insurance Corporation, to be fully collateralized with securities or obligations that are eligible under the laws of the State of Texas to secure and be pledged as collateral for such accounts until the principal and interest on such securities have been presented for payment and paid to the owner thereof. Payments made from such account shall be made by check drawn on such account unless the owner of such Securities shall, at its own expense and risk, request such other medium of payment.

Subject to the Unclaimed Property Law of the State of Texas, any money deposited with the Bank for the payment of the principal, premium (if any), or interest on any Security and remaining unclaimed for three years after the final maturity of the Security has become due and payable will be paid by the Bank to the Issuer if the Issuer so elects, and the Holder of such Security shall hereafter look only to the Issuer for payment thereof, and all liability of the Bank with respect to such monies shall thereupon cease. If the Issuer does not elect, the Bank is directed to report and dispose of the funds in compliance with Title Six of the Texas Property Code, as amended.

Section 5.06. Indemnification.

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on the

Bank's part, arising out of or in connection with the Bank's acceptance or administration of its duties hereunder, including the cost and expense incurred by the Bank in defending against any claim or from liability imposed on the Bank in connection with the Bank's exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader.

The Issuer and the Bank agree that the Bank may seek adjudication of any adverse claim, demand, or controversy over its person as well as funds on deposit, in either a Federal or State District Court located in the Denton or Tarrant County, Texas, and agree that service of process by certified or registered mail, return receipt requested, to the address referred to in Section 6.03 of this Agreement shall constitute adequate service. The Issuer and the Bank further agree that the Bank has the right to file a Bill of Interpleader in any court of competent jurisdiction in Denton or Tarrant County, Texas to determine the rights of any Person claiming any interest herein.

Section 5.08. Depository Trust Company Services.

It is hereby represented and warranted that, in the event the Securities are otherwise qualified and accepted for "Depository Trust Company" services or equivalent depository trust services by other organizations, the Bank has the capability and, to the extent within its control, will comply with the "Operational Arrangements," effective August 1, 1987, which establishes requirements for securities to be eligible for such type depository trust services, including, but not limited to, requirements for the timeliness of payments and funds availability, transfer turnaround time, and notification of redemptions and calls.

Attached hereto is a copy of the Blanket Issuer Letter of Representations between the Issuer and The Depository Trust Company, New York, New York, providing for the Bonds to be issued in a Book-Entry Only System. The Bank and the Issuer hereby confirm their obligations under such Letter of Representation.

**ARTICLE SIX
MISCELLANEOUS PROVISIONS**

Section 6.01. Amendment.

This Agreement may be amended only by an agreement in writing signed by both of the parties hereto.

Section 6.02. Assignment.

This Agreement may not be assigned by either party without the prior written consent of the other.

Section 6.03. Notices.

Any request, demand, authorization, direction, notice, consent, waiver, or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer or the Bank, respectively, at the addresses shown on the signature page of this Agreement.

Section 6.04. Effect of Headings.

The Article and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 6.05. Successors and Assigns.

All covenants and agreements herein by the Issuer and the Bank shall bind their respective successors and assigns, whether so expressed or not.

Section 6.06. Severability.

In case any provision herein shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 6.07. Benefits of Agreement.

Nothing herein, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim hereunder.

Section 6.08. Entire Agreement.

This Agreement and the Order constitute the entire agreement between the parties hereto relative to the Bank acting as Paying Agent/Registrar and if any conflict exists between this Agreement and the Order, the Order shall govern.

Section 6.09. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which shall constitute one and the same Agreement.

Section 6.10. Termination.

This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon thirty (30) days written notice; provided, however, an early termination of this Agreement

by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

Upon an early termination of this Agreement, the Bank agrees to promptly transfer and deliver the Security Register (or a copy thereof), together with other pertinent books and records relating to the Securities, to the successor Paying Agent/Registrar designated and appointed by the Issuer.

The provisions of Section 1.02, 5.02, 5.03 and 5.06 of this Agreement shall survive and remain in full force and effect following the termination of this Agreement.

The resigning Paying Agent/Registrar may petition any court of competent jurisdiction for the appointment of a successor Paying Agent/Registrar if an instrument of acceptance by a successor Paying Agent/Registrar has not been delivered to the resigning Paying Agent/Registrar within sixty (60) days after giving such notice of resignation.

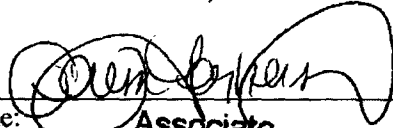
Section 6.11. Governing Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Texas.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

**THE BANK OF NEW YORK MELLON
TRUST COMPANY, N.A.**

By: 
Title: Associate

Mailing Address:

2001 Bryan Street, 9th Floor
Dallas, Texas 75201

Paying Agent/Registrar Agreement
Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2012

TCMUD002289

**TROPHY CLUB MUNICIPAL UTILITY
DISTRICT NO. 1**

By: 
Title: President, Board of Directors

Address:

100 Municipal Drive
Trophy Club, Texas 76262

Paying Agent/Registrar Agreement
Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2012

TCMUD002290

SCHEDULE A
Paying Agent/Registrar Fee Schedule

A-1



BNY MELLON
CORPORATE TRUST

Fee Schedule

Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2012

Acceptance Fee

None

A one-time charge covering the Bank Officer's review of governing documents, communication with members of the closing party, including representatives of the issuer, investment banker(s) and attorney(s), establishment of procedures and controls, set-up of trust accounts and tickler suspense items and the receipt and disbursement/investment of bond proceeds. This fee is payable on the closing date.

Annual Paying Agent Administration Fee

\$500

An annual charge covering the normal paying agent duties related to account administration and bondholder services. Our pricing is based on the assumption that the bonds are DTC-eligible/book-entry only. If the bonds are certificated or physical, then we will have to charge an additional \$1000 per year as a paying agent. This fee is payable annually, in advance.

Escrow Agent Fee:

\$750

The Escrow Agent Fee covers the consideration of documents and the normal administrative duties of the escrow agent according to the governing documents. For a full year or partial year escrow the fee is \$750 per year. Should the escrow account or depository account be open for less than two months, then we will reduce our fee to \$375. Should we not open an escrow, depository or similar account, we will not charge for such services. This fee is payable on the closing date.

Pricing for Call or Redemptions of Bonds

Per Call

\$300

Call Pricing includes distribution of the call notice to holders of record, redemption processing, and notification to EMMA. Any publication expenses (i.e. Bond Buyer, regional periodical, financial periodicals, etc.) for the call notice will be billed to the Issuer at cost.

Extraordinary Services/Misc Fees

At Appraisal

The charges for performing extraordinary or other services not contemplated at the time of the execution of the transaction or not specifically covered elsewhere in this schedule will be commensurate with the service to be provided and may be charged in BNY Mellon's sole discretion. If it is contemplated that the Trustee hold and/or value collateral or enter into any investment contract, forward purchase or similar or other agreement, additional acceptance, administration and counsel review fees will be applicable to the agreement governing such services. If the bonds are converted to certificated form, additional annual fees will be charged for any applicable tender agent and/or registrar/paying agent services. Additional information will be provided at such time. Should this transaction terminate prior to closing, all out-of-pocket expenses incurred, including legal fees, will be billed at cost. If all outstanding bonds of a series are defeased or called in full prior to their maturity, a termination fee may be assessed at that time.



BNY MELLON
CORPORATE TRUST

These extraordinary services may include, but are not limited to, supplemental agreements, consent operations, unusual releases, tender processing, sinking fund redemptions, failed remarketing processing, the preparation of special or interim reports, custody of collateral, a one-time fee to be charged upon termination of an engagement. Counsel, accountants, special agents and others will be charged at the actual amount of fees and expenses billed, UCC filing fees, money market sweep fees, auditor confirmation fees, wire transfer fees, transaction fees to settle third-party trades and reconciliation fees to balance trust account balances to third-party investment provider statements

Annual fees include one standard audit confirmation per year without charge. Standard audit confirmations include the final maturity date, principal paid, principal outstanding, interest cycle, interest paid, cash and asset information, interest rate, and asset statement information. Non-standard audit confirmation requests may be assessed an additional fee. Periodic tenders, sinking fund, optional or extraordinary call redemptions will be assessed at \$300 per event. FDIC or other governmental charges will be passed along to you as incurred.

Terms and Disclosures

Terms of Proposal

Final acceptance of the appointment under the Indenture is subject to approval of authorized officers of BNYM and full review and execution of all documentation related hereto. Please note that if this transaction does not close, you will be responsible for paying any expenses incurred, including Counsel Fees. We reserve the right to terminate this offer if we do not enter into final written documents within three months from the date this document is first transmitted to you. Fees may be subject to adjustment during the life of the engagement.

Customer Notice Required by the USA Patriot Act

To help the US government fight the funding of terrorism and money laundering activities, US Federal law requires all financial institutions to obtain, verify, and record information that identifies each person (whether an individual or organization) for which a relationship is established.

What this means to you: When you establish a relationship with BNYM, we will ask you to provide certain information (and documents) that will help us to identify you. We will ask for your organization's name, physical address, tax identification or other government registration number and other information that will help us to identify you. We may also ask for a *Certificate of Incorporation* or similar document or other pertinent identifying documentation for your type of organization.

We thank you for your assistance.

TAB 5

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: S&P: "_____" (Insured)
"_____" (Underlying)
(See "RATINGS" and "BOND INSURANCE" and
"BOND INSURANCE RISK FACTORS" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated: February 7, 2012

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations.

*The District will designate the Bonds as "Qualified Tax-Exempt Obligations".
(See "TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions" herein.)*

\$2,355,000*

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Denton and Tarrant Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2012**

Dated Date: March 1, 2012

Due: September 1, as shown on Page ii

The Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") \$2,355,000* Unlimited Tax Refunding Bonds, Series 2012, which are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs") (collectively, the "Bonds") as shown on page ii hereof, are being issued pursuant to the terms and provisions of an order (the "Bond Order") of the Board of Directors of the District (the "Board") and in accordance with the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). (See "THE BONDS - Authority for Issuance" herein.)

The Bonds, when issued, will constitute direct and general obligations of the District, payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without limitation as to rate or amount. **Neither the State of Texas, Denton or Tarrant Counties, Texas nor any political subdivision or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas or Denton or Tarrant Counties, Texas or any political subdivision or municipality thereof, other than the District, is pledged to the payment of the principal of or interest on or the redemption price of the Bonds.** (See "THE BONDS - Security for Payment" herein.) THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. (See "INVESTMENT CONSIDERATIONS" herein.) Bond purchasers are encouraged to read this entire Official Statement prior to making an investment decision.

Interest on the CIBs will accrue from March 1, 2012 (the "Dated Date") and will be payable March 1 and September 1 of each year, commencing September 1, 2012, until maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the CABs will accrue from the date they are initially delivered to the Underwriter and such interest will compound semiannually on March 1 and September 1 of each year (each an "Accretion Date") commencing September 1, 2012, and be payable only upon maturity, as described in the Order. The CIBs will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity and the CABs will be issued as fully registered bonds in denominations of \$5,000 representing the total amount of principal, plus the initial premium, if any, therefor and accrued interest payable upon maturity (the "Maturity Amount"), or any integral multiple thereof for a Maturity Amount. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds until DTC resigns or is discharged. Book-entry interests in the Bonds will be made available for purchase in principal amounts and Maturity Amounts of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of bonds representing their interest in the Bonds purchased. So long as Cede & Co. or its nominee is the registered owner of the Bonds, principal of and interest on the CIBs and Maturity Amount of the CABs will be payable by the paying agent/registrant to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial paying agent/registrant for the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent"). (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds are being used to (i) refund for debt service savings the District's outstanding Unlimited Tax Bonds, Series 2002 (see Schedule 1 attached hereto) and (ii) pay the costs related to the issuance of the Bonds. (See "PLAN OF FINANCING - Purpose" herein.)

The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those CIBs maturing on and after September 1, 2021, in whole or from time to time in part, on September 1, 2020, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The CABs are not subject to redemption prior to maturity. (See "THE BONDS - Redemption Provisions" herein.)

The District is considering qualifying the Bonds for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

**STATED MATURITY SCHEDULE
(See Page ii)**

The Bonds are offered for delivery, when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or will accompany the Bonds. Certain matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P., Dallas, Texas, as counsel to the Underwriter. It is expected that the Bonds will be available for delivery through DTC on or about March 5, 2012.

FIRSTSOUTHWEST

* Preliminary, subject to change.

STATED MATURITY SCHEDULE*
(Due September 1)
Base CUSIP – 897059 ^(a)

\$2,355,000* Unlimited Tax Refunding Bonds, Series 2012

\$2,200,000* Current Interest Bonds

| <u>Stated Maturity Due 9-1</u> | <u>Principal Amount</u> | <u>Initial Rate (%)</u> | <u>Initial Yield (%)</u> | <u>CUSIP Suffix^(a)</u> |
|--|-----------------------------|---------------------------------|----------------------------------|---------------------------------------|
| 2012 | \$ 20,000 | | | |
| **** | **** | | | |
| 2014 | 185,000 | | | |
| 2015 | 190,000 | | | |
| 2016 | 195,000 | | | |
| 2017 | 205,000 | | | |
| 2018 | 210,000 | | | |
| 2019 | 220,000 | | | |
| 2020 | 230,000 | | | |
| 2021 | 235,000 | | | |
| 2022 | 250,000 | | | |
| 2023 | 260,000 | | | |

(Interest to accrue from the Dated Date.)

\$155,000* Premium Capital Appreciation Bonds

| <u>Maturity Date Sept 1</u> | <u>Principal Amount</u> | <u>Initial Yield to Maturity</u> | <u>Maturity Amount</u> | <u>Initial Offering Price per \$5,000 in Maturity Amount</u> | <u>CUSIP Suffix^(a)</u> |
|-------------------------------------|-----------------------------|--|----------------------------|--|---------------------------------------|
| 2013 | \$155,000 | | | | |

(Interest to accrete from the Date of Delivery)

[See "SCHEDULE II - SCHEDULE OF ACCRETED VALUES OF PREMIUM CAPITAL APPRECIATION BONDS" ("CABs") herein for a table of the accreted values of the CABs (per \$5,000 Maturity Amount) at certain periodic dates]

^(a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor or the Underwriter is responsible for the selection or correctness of the CUSIP numbers set forth herein

* Preliminary, subject to change.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

BOARD OF DIRECTORS

| <u>Name</u> | <u>Position</u> | <u>Two-Year Term*</u> <u>Expires, May</u> | <u>Occupation</u> |
|-------------------|---------------------|--|--------------------|
| James C. Thomas | Director | 2014 | Retired |
| James Moss | President | 2012 | Insurance Adjuster |
| Kevin Carr | Secretary/Treasurer | 2014 | Self Employed |
| C. Nick Sanders | Vice President | 2012 | Business Owner |
| William Armstrong | Director | 2014 | Retired |

DISTRICT PERSONNEL AND ADVISORS

| | |
|--------------------------------|---|
| District Manager..... | Robert Scott Trophy Club, Texas |
| Senior Accountant | Renaë Gonzales Trophy Club, Texas |
| Attorney for the District..... | Bob West Whitaker Chalk Swindle & Sawyer, LLP Fort Worth, Texas |
| Financial Advisor | Southwest Securities Dallas, Texas |
| Bond Counsel..... | McCall, Parkhurst & Horton L.L.P. Dallas, Texas |
| Independent Auditors | Lafolett & Co., PLLC Tom Bean, Texas |
| Tax Assessor - Collector | Denton County Tax Assessor-Collector |
| Chief Appraiser | Denton County, Texas Tarrant County, Texas |

For Additional Information Please Contact:

Mr. Robert Scott
District Manager
Trophy Club Municipal Utility District
100 Municipal Drive
Trophy Club, Texas 76262
(682) 831-4610

Mr. Dan A. Almon
Senior Vice President
Southwest Securities, Inc.
1201 Elm Street, Suite 3500
Dallas, Texas 75270
(214) 859-9452

Mr. Mark McLiney
Senior Vice President
Southwest Securities, Inc.
4040 Broadway, Suite 220
San Antonio, Texas 78209
(210) 226-8677

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The cover page, subsequent pages hereof and the schedules and appendices attached hereto, are part of this Official Statement.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the "Rule"), this document constitutes a Preliminary Official Statement of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

This Preliminary Official Statement, which includes the cover page, Schedule I and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Preliminary Official Statement, and, if given or made, such other information or representation must not be relied upon.

The agreements of the District and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchaser of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Certain information set forth herein has been provided by sources other than the District that the District believes to be reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Preliminary Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

The Underwriter has provided the following statement for inclusion in this Preliminary Official Statement. The Underwriter has reviewed the information in this Preliminary Official Statement in accordance with, and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS PRELIMINARY OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY DTC.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THIS PRELIMINARY OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21e OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. (See "OTHER PERTINENT INFORMATION--Forward Looking Statements Disclaimer" herein.)

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

| | |
|-------------------------------|--|
| The Issuer | The Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") is a political subdivision of the State of Texas located in Denton and Tarrant Counties, Texas. The District was created as a municipal utility district pursuant to Chapter 54 of the Texas Water Code and is a conservation and reclamation district in accordance with Article XVI, Section 59 of the Texas Water Code. The District has also adopted a fire protection plan under Section 50.055 of the Texas Water Code, now codified as Subchapter L of Chapter 49 of the Texas Water Code, pursuant to the Order of the Texas Water Commission of August 22, 1983. In July of 2009, documentation was submitted to the Texas Commission on Environmental Quality ("TCEQ") regarding the consolidation of Trophy Club Municipal Utility District Nos. 1 and 2 pursuant to a May 9, 2009 election. (See "THE DISTRICT" and "APPENDIX B - GENERAL INFORMATION REGARDING THE DISTRICT" herein.) |
| The Bonds | The Bonds, which are being issued in part as Current Interest bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs") (collectively, the "Bonds") as shown on page ii hereof, are being issued pursuant to the terms and provisions of an order (the "Bond Order") of the Board of Directors of the District (the "Board") and in accordance with the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). (See "THE BONDS - Authority for Issuance" herein.) |
| Security for Payment | The Bonds, when issued, will constitute direct and general obligations of the District, payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without limitation as to rate or amount. Neither the State of Texas, Denton or Tarrant Counties, Texas nor any political subdivision or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas or Denton or Tarrant Counties, Texas or any political subdivisions or municipality thereof, other than the District, is pledged to the payment of the principal of or interest on or the redemption price of the Bonds. (See "THE BONDS - Security for Payment" herein.) |
| Paying Agent/Registrar | The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. |
| Redemption Provisions | CIBs maturing on and after September 1, 2021 are subject to redemption in whole or from time to time in part at the option of the District on September 1, 2020, and on any date thereafter, at par plus accrued interest from the most recent interest payment date to the date of redemption. The CABs are not subject to redemption prior to maturity. |
| Tax Matters | In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing law subject to matters discussed herein under "TAX MATTERS", including the alternative minimum tax on corporations. (See "TAX MATTERS" and APPENDIX C - "FORM OF LEGAL OPINION OF BOND COUNSEL" herein.) |
| Use of Proceeds | Proceeds from the sale of the Bonds are being used to (i) refund for debt service savings the District's outstanding Unlimited Tax Bonds, Series 2002 (see Schedule 1 attached hereto) and (ii) to pay the costs related to the issuance of the Bonds. (See "PLAN OF FINANCING - Purpose" herein.) |
| Bond Insurance | The District is considering qualifying the Bonds for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.) |
| Ratings | The District has made application to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating on the Bonds. The District currently has an underlying rating of "AA-" from S&P. An explanation of the significance of a rating may be obtained from the company furnishing the rating. (See "RATINGS" herein.) |
| Book-Entry-Only System | The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment and the method of transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.) |
| Future Bond Issues | The District has no plans to issue additional bonds within the next twelve months. See "INVESTMENT CONSIDERATIONS - Future Debt" herein. |
| Payment Record | The Issuer has never defaulted in the timely payment of principal of or interest on its general obligation indebtedness. |
| Delivery | When issued, anticipated on or about March 5, 2012. |
| Legality | Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas. |

SELECTED FINANCIAL INFORMATION

| | | | |
|---|----------------|-----------------|----------------|
| 2011 Certified Net Taxable Assessed Valuation (ARB Approved) | | \$954,645,475 | ^(a) |
| Gross Debt Principal Outstanding (after issuance of the Bonds) | | \$7,120,000 | * |
| Ratio of Gross Debt Principal to 2011 Taxable Assessed Valuation | | 0.75% | * |
| Debt Service Fund Balance as of December 31, 2011 (audited) | | \$316,299.71 | |
| 2011-2012 Tax Rate | | | |
| Operations | \$0.00989 | | |
| Fire Protection | 0.10925 | | |
| Debt Service | <u>0.05586</u> | | |
| | Total | \$0.17500 | |
| Average Percentage of Total Tax Collections – Tax Years 2006-2010 | | 100.40% | ^(b) |
| Projected Average Annual Debt Service Requirement (2012-2031) Of the Bonds and the Outstanding Bonds ("Projected Average Requirement") | | \$471,485 | * |
| Tax Rate Required to Pay Projected Average Annual Requirement Based Upon Current Net Taxable Assessed Valuations at 99% Collections | | \$0.04989/\$100 | A.V. * |
| Projected Maximum Annual Debt Service Requirement (2012) of the Bonds and The Outstanding Bonds ("Projected Maximum Requirement") | | \$866,994 | * |
| Tax Rate Required to Pay Projected Maximum Annual Requirement Based Upon Current Net Taxable Assessed Valuations at 100% collections | | \$0.09174/\$100 | A.V. * |
| Estimated 2011 population | | 7,600 | |

^(a) 2011 Net Taxable Valuation does not include property under protest or values for incomplete accounts. (See "TAXING PROCEDURES" herein)

^(b) Historical tax collection information for Tax Years 2007-2008 represents the combined totals from two separate entities (Trophy Club MUD No. 1 and Trophy Club MUD No. 2)

* Preliminary, subject to change.

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PRELIMINARY OFFICIAL STATEMENT
relating to

\$2,355,000*

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Denton and Tarrant Counties, Texas)

UNLIMITED TAX REFUNDING BONDS, SERIES 2012

INTRODUCTION

This Preliminary Official Statement provides certain information in connection with the issuance by the Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") of its \$2,355,000* Unlimited Tax Refunding Bonds, Series 2012 (the "Bonds").

The Bonds are being issued pursuant to the terms and provisions of an order (the "Bond Order") of the Board of Directors of the District (the "Board") and in accordance with the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). In the Bond Order, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). (See "THE BONDS - Security for Payment" herein.)

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

Included in this Preliminary Official Statement are descriptions of the Bonds, the Order, and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District or Financial Advisor.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds are being used to (i) refund for debt service savings the District's outstanding Unlimited Tax Bonds, Series 2002 (the "Refunded Bonds") (see "Schedule I - Schedule Of Refunded Bonds" attached hereto) and (ii) to pay the costs related to the issuance of the Bonds.

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds, and interest due thereon, are to be paid on September 1, 2012* (the "Redemption Date"), from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent") or its successor. The Order approves and authorizes the execution of an escrow agreement (the "Escrow Agreement") between the District and the Escrow Agent. The Order provides that, from the proceeds of the sale of the Bonds received from the Underwriter, the District will deposit the amount necessary, together with other available funds, if any, to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Such funds will be held uninvested by the Escrow Agent pending their disbursement to redeem the Refunded Bonds on the Redemption Date. The Escrow Agent, as the paying agent for the Refunded Bonds, will determine and certify at the time of delivery of the Bonds that the amounts deposited to the Escrow Fund will equal an amount sufficient to pay, on the scheduled redemption date, the principal of and interest on the Refunded Bonds. **Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and amounts therein will not be available to pay the Bonds.**

By deposit of the funds with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with Texas law. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the funds held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt, and the obligation of the District to make payments in support of the debt service on the Refunded Bonds will be extinguished.

* Preliminary, subject to change.

SOURCES AND USES OF FUNDS

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

Sources of Funds

Par Amount of Bonds

Accrued Interest on the CIBs

Original Issue Premium

Total Sources of Funds

Uses of Funds

Deposit to Escrow Fund

Cost of Issuance (Including Bond Insurance, if applicable)

Underwriter's Discount

Accrued Interest Deposit to Interest & Sinking Fund

Additional Proceeds Deposit to the Debt Service Fund

Total Uses of Funds

THE BONDS

General Description

The Bonds are being issued in part as Current Interest Bonds ("CIBs") and in part as Premium Capital Appreciation Bonds ("CABs"). The CIBs will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity, and the CABs will be issued as fully registered certificates in denominations of \$5,000 representing the total amount of principal, plus the initial premium, if any, therefor and accrued interest payable upon maturity (the "Maturity Amount"), or any integral multiple thereof for a Maturity Amount. The CIBs shall bear interest from the March 1, 2012 on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the CIBs will be payable on March 1 and September 1 of each year commencing September 1, 2012, until maturity or prior redemption. Interest on the CABs will accrete from the date they are initially delivered to the Underwriter and such interest will compound on March 1 and September 1 of each year (each an "Accretion Date") commencing September 1, 2012, and be payable only upon maturity, as described in the Order, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Principal of the CIBs and Maturity Amounts of the CABs is payable at the designated offices of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the CIBs shall be paid to the registered owners whose names appear on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (as hereinafter defined) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to be closed, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Yield on Premium Capital Appreciation Bonds

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

Authority for Issuance

The Bonds are issued by the District pursuant to the terms and provisions of the Order and the Constitution and general laws of the State, particularly Chapter 1207.

Security for Payment

The Bonds will constitute valid and legally binding direct obligations of the District payable from the proceeds of a continuing direct annual ad valorem tax levied by the District against all taxable property located therein, without legal limit as to rate or amount. The Order irrevocably pledges such ad valorem taxes to the payment of the principal of and interest on the Bonds while the same remain outstanding. Neither the State of Texas, Denton or Tarrant Counties, Texas nor any political subdivision

or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas or Denton or Tarrant Counties, Texas or any political subdivision or municipality thereof, other than the District, is pledged to the payment of the principal of or interest on or the redemption price of the Bonds.

Tax Pledge: The Board covenants in the Order that, while any of the Bonds are outstanding and the District is in existence, it will levy and assess a continuing ad valorem tax upon each \$100 valuation of taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide for the payment of principal of the Bonds when due or the redemption price at any earlier redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The Board additionally covenants in the Order to timely assess and collect such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated as the "Debt Service Fund" for the Bonds.

Abolition: Under Texas law, If a district is located wholly in two or more municipalities and in an unincorporated area, the district may be abolished by agreement among the district and all of the municipalities in which parts of the district are located. The abolition agreement must provide for the distribution of assets and liabilities (including the Bonds) of the abolished district. The agreement must also provide for the distribution among one or more of the municipalities the pro rata assets and liabilities located in the unincorporated area and must provide for service to customers in unincorporated areas in the service area of the abolished district. The municipality that provides the service in the unincorporated area may charge its usual and customary fees and assessments to the customers in that area. No representation is made concerning the likelihood of abolition or the ability of the municipalities which contain parts of the District to make debt service payments on the Bonds should abolition occur.

Consolidation: A district (such as the District) has the legal authority to consolidate with other municipal utility districts and in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). The District is the resulting entity from a consolidation in May 2009 of Trophy Club Municipal Utility District No. 1 and Trophy Club Municipal Utility District No. 2 (see "THE DISTRICT").

Payment Record

The District has never defaulted on the timely payment of principal of and interest on its general obligation indebtedness.

Flow of Funds and Investment of Funds

The Bond Order creates a Debt Service Fund.

The Debt Service Fund shall be kept separate and apart from all other funds of the District. Any cash balance in the Debt Service Fund must be continuously secured, to the extent that the United States or an instrumentality of the United States does not insure the cash balance, by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of municipal utility districts having an aggregate market value, exclusive of accrued interest, at all times equal to the cash balance in the fund to which such securities are pledged.

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

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the CIBs maturing on and after September 1, 2021 on September 1, 2020, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Not less than thirty (30) days prior to a redemption date for the CIBs, the District shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each CIB or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice. With respect to any optional redemption of the CIBs, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the CIBs to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such

redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such CIBs, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such CIBs have not been redeemed. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY ANY HOLDER OF THE CIBS, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE, AND ANY PRECONDITIONS STATED IN THE NOTICE OF REDEMPTION HAVING BEEN SATISFIED INTEREST ON THE REDEEMED CIBS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CIB HAS NOT BEEN PRESENTED FOR PAYMENT. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the CIBs or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the CIBs or portion thereof which are to be redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bonds or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the CIBs called for redemption or any other action premised on any such notice. Redemption of portions of the CIBs by the Issuer will reduce the outstanding principal amount of such CIBs held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such CIBs held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such CIBs from the Beneficial Owners. Any such selection of CIBs to be redeemed will not be governed by the Order and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Termination of Book-Entry-Only System

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

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

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

Limitations on Transfer of Bonds: Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the CIBs (i) during the period commencing on the close of business on the 15th calendar day of the month preceding each interest payment date (the "Record Date") and ending with the opening of business on the

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

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

Defeasance of Outstanding Bonds

The Order provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the respective series of Bonds. The Order provides that "Defeasance Securities" means (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (4) any other then authorized securities or obligations under applicable Texas state law that may be used to defease obligation such as the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that any particular rating for U.S. Treasury securities used as Government Securities or the rating for any other Government Security will be maintained at any particular rating category. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the CIBs for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the CIBs for redemption is not extinguished if the District:

(i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the CIBs for redemption; (ii) gives notice of the reservation of that right to the owners of the CIBs immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

Paying Agent/Registrar

Principal of and semiannual interest on the CIBs and the Maturity Amount of the CABs will be paid by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial Paying Agent/Registrar (the "Paying Agent"). The Paying Agent must be a bank, trust company, financial institution or other entity duly qualified and equally authorized to serve and perform the duties as paying agent and registrar for the Bonds.

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

Record Date

The record date for payment of the interest on Bonds on any regularly scheduled interest payment date is defined as the fifteenth day of the month preceding such interest payment date.

Issuance of Additional Debt

The District may issue bonds necessary to construct waterworks and sewer system improvements and facilities for which the District was created and to provide fire protection to the District, with the approval of the District's voters. Following the issuance of the Bonds, \$5,769,217 unlimited tax bonds authorized by the District's voters will remain unissued. The District has no plans to issue additional general obligation debt within the next twelve months. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. Neither Texas law nor the Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. (See "INVESTMENT CONSIDERATIONS" herein.) The District may also issue bonds secured by revenues of the water and sewer system or other revenues of the District (other than ad valorem tax revenues) without voter approval.

Specific Tax Covenants

In the Order the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the property re-financed therewith by persons other than state or local governmental units, and the manner in which the proceeds of the Bonds are to be invested. The District may cease to comply with any such covenant if it has received a written opinion of a nationally recognized bond counsel to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code.

Additional Covenants

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

Remedies in Event of Default

The Order provides that, in addition to all other rights and remedies of any owner of Bonds provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Order including payment when due of the principal of and interest on the Bonds, any Bond owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

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

Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Bond owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Bond owners may be limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of political subdivisions. (See "INVESTMENT CONSIDERATIONS - Bankruptcy Limitation to Registered Owners' Rights".) The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified to the customary rights of debtors relative to their creditors.

Amendments to the Order

The District may without the consent of or notice to any Bond owners amend the Order in any manner not detrimental to the interest of the Bond owners, including the curing of an ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the owners of a majority in principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order, except that, without the consent of the owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the time or times of payment of the principal of and interest on the Bonds; reduce the principal amount thereof or the rate of interest thereon, change the place or places at, or the coin or currency in which, any Bond or the interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) affect the right of the owners of less than all of the Bonds outstanding, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. In addition, a state, consistent with federal law, may in the exercise of its police powers make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of its political subdivisions as are reasonable and necessary for attainment of an important public purpose.

RATINGS

In connection with the sale of the Bonds, The District has made application to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating on the Bonds. The District currently has an underlying rating of "AA-" from S&P. An explanation of the significance of a rating may be obtained from the company furnishing

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

BOND INSURANCE

The Issuer has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. The Issuer shall notify the Underwriter upon obtaining a commitment from a municipal bond insurance company concerning this matter. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to any such municipal bond insurance policy.

BOND INSURANCE RISK FACTORS

General

If a commitment from a bond insurance company (the "Insurer") to provide a municipal bond insurance policy relating to the Bonds (the "Policy") is obtained, the final Official Statement shall disclose certain information relating to the Insurer and the Policy. The purchase of such insurance, if available, and the payment of all associated costs will be at the option and expense of the District. If the District chooses to purchase the Policy, the following risk factors related to municipal bond insurance policies generally apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the District which is recovered by the District from the registered owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the District (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS - Default and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the registered owners.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the ad valorem tax levied on all taxable property located within the District. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in "BOND INSURANCE RISK FACTORS - Claims-Paying Ability and Financial Strength of Municipal Bond Insurers" herein. The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the District, the Financial Advisor or the Underwriter has made independent investigation into the claims-paying ability of any Insurer and no assurance or representation regarding the financial strength or projected financial strength of any Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business and Fitch Ratings (the "Rating Agencies") have, over the last several years, downgraded and/or placed on negative watch the claims-paying and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

The District and the Underwriter cannot and do not give any assurance the (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participant, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent/Registrar, on the payable date in accordance with their

respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct and Indirect Participants.

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

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered. (See "THE BONDS – Termination of Book-Entry-Only System" herein.)

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

INVESTMENT CONSIDERATIONS

General

The Bonds are obligations of the District and are not obligations of the Town of Trophy Club, State of Texas, Denton County, Tarrant County or any other political subdivision except the District. The Bonds are payable from a continuing, direct, annual ad valorem tax, without legal limitations as to rate or amount, on all taxable property within the District (See "THE BONDS - Security for Payment" herein.) The investment quality of the Bonds depends both on the ability of the District to collect from the property owners all taxes levied against their property or, in the event of foreclosure, the value of the taxable property with respect to taxes levied by the District and by other taxing authorities.

Approval of the Bonds

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors and Interest Rates: A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots. The market value of such homes and lots is related to general economic conditions affecting the demand for and taxable value of residences. Demand for lots and residential dwellings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity, which has been experienced in the District for the last several years, tend to restrict the growth of property values in the District or could adversely impact existing values. Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers and homebuilders are able to obtain financing for development and construction costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete development activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued development and construction within the District. In addition, the success of development within the District and growth of District's taxable property values are, to a great extent, a function of the Dallas/Fort Worth metropolitan and regional economics.

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2011 certified net taxable assessed valuation (ARB Approved) of the District (see page vii "SELECTED FINANCIAL INFORMATION") is \$954,645,475. After issuance of the Bonds the projected maximum annual debt service requirement will be \$866,994* (2012)

and the projected average annual debt service requirement will be \$471,485* (2012 through 2031, inclusive). Assuming no increase or decrease from the 2011 assessed valuation and no use of funds on hand, a tax rate of \$0.09174* per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected maximum annual debt service requirement of \$866,994* and a tax rate of \$0.04989* per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected average annual debt service requirement of \$471,485*. After a transfer of \$308,000, representing Fire Department rental income, the District's 2011 debt service tax rate is \$0.05586 per \$100 assessed valuation. (See "APPENDIX A – TABLES 4 and 5" herein.

Tax Collections and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Because ownership of the land within the District is highly fragmented among a number of taxpayers, attorney's fees, and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over the bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer.

Consolidation

A district (such as the District) has the legal authority to consolidate with other municipal utility districts and, in connection therewith, to provide for the consolidation of its assets, such as its water and wastewater systems with the assets of the district(s) with which it is consolidating, as well as its liabilities (which would include the Bonds and other outstanding obligations of the District). The District is the resulting entity from a consolidation in May 2009 of Prior MUD 1 and Prior MUD 2 (see "THE DISTRICT"). No representation is made that the District will consolidate again in the future with any other district.

Abolition

Under Texas law, If a district is located wholly in two or more municipalities and in an unincorporated area, the district may be abolished by agreement among the district and all of the municipalities in which parts of the district are located. The abolition agreement must provide for the distribution of assets and liabilities (including the Bonds) of the abolished district. The agreement must also provide for the distribution among one or more of the municipalities the pro rata assets and liabilities located in the unincorporated area and must provide for service to customers in unincorporated areas in the service area of the abolished district. The municipality that provides the service in the unincorporated area may charge its usual and customary fees and assessments to the customers in that area. No representation is made concerning the likelihood of abolition or the ability of the municipalities which contain parts of the District to make debt service payments on the Bonds should abolition occur.

Alteration of Boundaries

In certain circumstances, under Texas law the District may alter its boundaries to: 1) upon satisfying certain conditions, annex additional territory; and 2) exclude land subject to taxation within the District that is not served by District facilities if the District simultaneously annexes land of equal acreage and value that may be practicably served by District facilities. No representation is made concerning the likelihood that the District would effect any change in its boundaries

Registered Owners' Remedies

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the covenants contained in the Bonds or in the Order and the District's obligations are not uncertain or disputed.

The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a

* Preliminary, subject to change

waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Therefore, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Bondholders may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a municipal utility district such as the District to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owner's claim against a district. Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9 and such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court), and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

A district may not be forced into bankruptcy involuntarily.

The Effect of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 on Tax Collections of the District

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

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

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

Continuing Compliance with Certain Covenants

The Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. (See "THE BONDS - Specific Tax Covenants" herein.) Failure by the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. (See "TAX MATTERS" herein.)

Future Debt

The District has reserved in the Order the right to issue the remaining \$5,769,217 authorized but unissued unlimited tax bonds and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. All of the remaining unlimited tax bonds, which have heretofore been authorized by the voters of the District may be issued by the District from time to time for qualified purposes, as determined by the Board of Directors of the District, subject to the approval of the Attorney General of the State of Texas and the TCEQ.

The District has no plans to issue additional debt within the next twelve months.

Future and Proposed Legislation

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

THE DISTRICT

Creation of the District

The District was created by the consolidation of two prior municipal utility districts, being Trophy Club Municipal Utility District No. 1 ("Prior MUD 1") and Trophy Club Municipal Utility District No. 2 ("Prior MUD 2" and collectively with Prior MUD 1, the "Prior MUDs"). Prior MUD 1 was created as Denton County Municipal Utility District No. 1 by order of the Texas Water Rights Commission (the "Commission") on March 4, 1975 for the purpose of providing water and sewer facilities and other authorized services to the area within the territory of Prior MUD 1. The name of Prior MUD 1 was changed to Trophy Club Municipal Utility District No. 1 on April 1, 1983. Prior MUD 2 was created as a result of the consolidation of Denton County Municipal Utility District No. 2 and Denton County Municipal Utility District No. 3, which were created by the Texas Commission on Environmental Quality ("TCEQ") for the purpose of providing water, sewer and drainage facilities and other authorized services to the area. The creation of Prior MUD 2 was confirmed by its electorate at an election held on August 9, 1980.

On January 26, 2009, the Boards of the Prior MUDs entered into an agreement to consolidate the Prior MUDs into a single Municipal Utility District covering the territory of the Prior MUDs, subject to the approval of the consolidation by the voters at an election held for that purpose. On May 9, 2009, the voters approved the consolidation and the District became the Trophy Club Municipal Utility District No. 1. Pursuant to the consolidation agreement, the District assumed the outstanding bonds, notes and other obligations of the Prior MUDs and the authorized but unissued bonds, taxes and other obligations of the Prior MUDs and became authorized to levy a uniform tax on all taxable property within the District. The functions performed by the District include supplying water for municipal purposes; collecting, transporting, processing and disposing of wastes; establishing, operating and maintaining a fire department; and performing other functions permitted by municipal utility districts under the Texas Water Code.

Governance

The District is governed by a board of directors which has control over and management supervision of all affairs of the District. There are five elected directors that serve four-year staggered terms. Directors receive no remuneration, except a Director's per diem allowance of \$100 per day on which necessary service is performed for the District. The District and all similar districts are subject to the continuing supervision and filing requirements of the TCEQ, including the preparation and filing of an annual independent audit report. All District facility plans are submitted to the TCEQ for review and approval.

Employees

The District has no employees of its own. Rather, personnel services are furnished under an Interlocal Agreement for Employee and Contractual Services (the "Agreement") between the District and the Town pursuant to Chapter 791 of the Texas Government Code. Under the Agreement, employees who report directly to the District rather than the Town are entitled to the same benefits provided to Town employees, but the District is required to pay all costs associated with the provision of benefits to such employees, including pension benefits. In addition, the District is required to pay 50% of the costs incurred by the Town for salary, benefits and other compensation of employees who provide firefighting and emergency medical services to both the District and the Town. The District's liabilities under the Agreement, including pension benefits, do not have a substantial impact on the District's finances.

General

The District is comprised of 2,283.5 acres [approximately 94 acres in Westlake (Solana)]. Approximately 195 acres in Trophy Club are undeveloped. Of the developed acres, there are approximately 3,172 existing households, 136 apartment units and 42 townhouses.

Location

The District is located in southern Denton County and northern Tarrant County partially within the Town of Trophy Club (the "Town") and partially within the Town of Westlake. The District is directly adjacent to and accessible from State Highway 114, north of and approximately mid-way between Dallas and Fort Worth. The District is approximately 27 miles from downtown Dallas, 25 miles from downtown Fort Worth, 17 miles from Denton, 8 miles from Grapevine and 14 miles from the Dallas-Fort Worth International Airport.

Major highways connecting these population centers, which will also serve the District, include State Highways 114, 170 and 377 and Interstate Highways 35E and 35W. State Highway 170 connects Trophy Club directly to Alliance Airport which is located seven miles southwest of the District. (See "Vicinity Map" herein.)

Population

The population of the District is estimated to be approximately 7,600 and the population of the entire Town of Trophy Club, the District and the Trophy Club PID No. 1 (the "Trophy Club Development") is estimated at 8,895 (as of December 2011).

Topography and Drainage

The land within the District has a gradual slope from the southeast to the northwest toward Marshall Creek, which forms the western boundary of the District. Runoff water enters Grapevine Reservoir just north of the District through Marshall Creek or several other small tributaries. The maximum elevation in the area being developed is approximately 690 feet mean sea level and the minimum elevation in the area being developed is approximately 576 feet mean sea level. The soil is sandy loam and clay loam, and existing vegetation consists of native grasses and small oak trees. Areas which are subject to flooding by a 100-year frequency flood are located in the flood plan of Marshall Creek and have been delineated by the Water Resources Branch of the U.S. Geological Survey. Additional flood studies were made by the engineers to determine what areas may be subject to flooding. It was determined that the area subject to flooding within the District is approximately 58.5 acres based on 100-year flood frequency; however, 57.6 acres of this area is within the golf course area and is not intended to be developed for residential land use.

Shopping and Commercial Facilities

A shopping center within the District has a major grocery store chain, a bank, a major chain drug store, several service businesses, fast food outlets, and a beauty shop and a dry cleaners. Additionally there are several more businesses and professional offices located in the District, at the primary entrance to the Town of Trophy Club. There are additional shopping facilities in Roanoke, about two (2) miles west of the District and numerous shopping facilities in Southlake about five (5) miles east of the District and in Grapevine about eleven (11) miles east of the District. Full metropolitan shopping facilities are available in Dallas and Fort Worth, Texas which have their central business districts approximately 27 miles and 25 miles, respectively from the District.

Fire Protection

The District operates its Fire Department (the "Department") with an engine, a Quint, a brush truck and two support vehicles. Currently the Department is staffed with twelve (12) full-time firefighter / paramedics, one full-time Fire chief and a part-time administrative assistant. Operations under the Department include fire suppression, fire prevention, emergency management, investigation/enforcement and emergency medical response. The new \$3.1 million fire station was completed and equipped in August 2011 with proceeds from the sale of the Series 2010 Bonds, replacing the previously existing facility. This Department serves the Town of Trophy Club and area in the District that is not in the Town limits, and is currently financed by a combination of a \$0.10925 maintenance tax assessment in the District, as well as a \$0.10925 Public Improvement District ("PID") assessment in Trophy Club PID No. 1. The 2011-2012 annual operating budget is \$1,311,934 with October 1, 2011 reserves of \$287,689 (unaudited).

Police Protection

Twenty-four hour security is provided by the Town of Trophy Club Police Department

Schools

The Town is served by the Northwest Independent School District (the "School District" or "Northwest ISD"). Northwest ISD covers approximately 232 square miles in Denton, Wise and Tarrant Counties. In addition to serving the Town, the School District also serves the communities of Aurora, Fairview, Haslet, Justin, Newark, Northlake, Rhome, Roanoke and portions of Flower Mound, Fort Worth, Keller, Southlake and Westlake. Northwest ISD is comprised of 16 primary schools for grades pre-kindergarten through fifth, 4 middle schools for grades sixth through eighth, 3 high schools for grades ninth through twelfth, and 2 alternative education campuses for grades seventh through twelfth. One of the high schools, Byron Nelson High School, is located in the Town of Trophy Club. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level, and all are equipped with computers and full cafeteria service. The School District serves a 2011-2012 estimated enrollment of 16,630 students (as of November 1, 2011).

Recreational Opportunities

Recreational opportunities in Trophy Club are afforded by Lake Grapevine and its surrounding parks, which lie two miles north and east of the District. The Town has several community parks, including facilities for soccer, baseball, softball, basketball, tennis, a competitive swimming pool and playground amenities. The Town also operates an 877 acre Corps of Engineers park, which features 100 acres of motorized trails, as well as many passive recreational opportunities such as fishing, hiking and picnicking.

Status of Development of the District

The area in the District is locally known as "Trophy Club." It is a residential and mixed-use development consisting of approximately 2,283.5 acres. The District is a mature district with roughly 195 acres undeveloped, of which 135 acres are zoned residential and approximately 60 acres are available for commercial development. There is substantial land left for commercial development in the Solana complex, which is located within the City of Westlake.

Lot and custom home sales officially began in the District in mid-year 1975. Homes are currently being offered at prices ranging from \$200,000 to \$1,000,000 and lots range in price from \$35,000 to \$200,000. The status of single-family home development as of January 1, 2012 is shown below:

Status of Single-Family Home Development

| <u>Houses Under Construction</u> | <u>Houses Occupied</u> | <u>Total Houses</u> | <u>Additional Developed Lots</u> | <u>Total Houses and Lots</u> | <u>Multi-Family Units Completed ^(a)</u> |
|--|----------------------------|-------------------------|--|--------------------------------------|--|
| 138 | 3,172 | 3,310 | 72 | 3,382 | 178 |

^(a) In addition to the single-family development, there are approximately 132 apartments and 42 completed townhouses, which are occupied.

Status of Business / Commercial Development

The undeveloped commercial land within the Solana business complex (approximately 230 acres) is available for commercial development, however the District is unaware of any current plans for additional development in the Solana business complex. The Town of Trophy Club and the District have commercial land available for development on approximately 52 acres of land along Highway 114. The land is zoned for uses such as a medical complex, hotels, restaurants and a short-stay hospital facility. Additionally, the District currently has a small strip center along Highway 114, containing several food establishments and professional offices.

Maguire Thomas Partners ("Maguire") currently owns the Solana business complex, which is the top principal taxpayer in the District (see APPENDIX A "Table 11 - Principal Taxpayers 2011-2012"). On November 16, 2011, a State district judge in Tarrant County appointed a receiver to take control of Solana. According to court filings, the receiver will operate Solana, take all necessary actions to preserve the income and value of the property, and market the property for sale. It is expected that Solana will be posted for foreclosure in the near future. The District cannot predict the impact that such events may have on the District's financial condition.

Public Improvement District Description

Trophy Club PID No. 1 (the "PID") consists of approximately 609.683 acres of land generally to the north of Oakmont Drive, Oak Hill Drive and the Quorum Condominiums, east of the Lakes Subdivision and Parkview Drive, south of the Corps of Engineer's property, and west of the Town's eastern limit. The PID is located entirely within the Town limits but outside the District. A master-planned residential community (the "Property") is under construction in the PID and at build-out will be comprised of approximately 1,489 residential units located within the Property, which Property is zoned to permit such use pursuant to the PD Zoning. As of December 31, 2011, 538 homes have been completed and are occupied and an additional 170 homes have been permitted and are currently under construction. The PID is projected to build out as early as 2017 if construction continues at current levels, or as late as 2025 in the event of a decrease in the construction rate. The District provides emergency and fire protection services to the PID, and the PID pays the District an assessment for such services at the current fire tax rate of \$0.10925. The District also provides water and sewer service for the PID. The total billed for PID water and sewer for fiscal year 2010-11 was \$617,001.57.

THE DISTRICT'S SYSTEM

The following information describes generally the water and wastewater systems for the District.

Description of the Water System

Sources of Water Supply: The present water supply is provided from two sources: (i) four ground wells which provide approximately 1,000,000 gallons per day, and (ii) a 21-inch water line which is capable of delivering 10,000,000 gallons per day of treated water from the City of Fort Worth facilities. Currently the District contracts with the City of Fort Worth for unlimited water services. Current maximum usage is approximately 6,500,000 gallons per day (of which 4,500,000 is Fort Worth water). These sources, when combined, provide water which complies with the quality requirements of the TCEQ and needs only chlorination at the District's water plant facility.

Water Plant Facility: The present facility provides 900,000 gallons elevated and 6,000,000 gallons ground storage with pumping/chlorination capacity of 10,000,000 gallons per day.

Description of the Wastewater System

Wastewater Treatment Plant Facility: The wastewater treatment plant system has a permitted treatment/discharge capacity of 1,750,000 gallons per day from the TCEQ under TPDES Permit No. 11593-001. Although the permit authorizes the discharge of wastewater to the adjacent tributary leading to Lake Grapevine, the plant effluent is currently pumped to various holding ponds within the community of Trophy Club and is re-used for irrigating the golf course.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Trustees. Both State law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission

that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm", or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Under Texas law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board of Trustees detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board of Trustees.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

Current Investments

As of December 31, 2011 the District's funds were invested in the District's depository bank and TexPool as shown in the table that follows. The District does not currently own, nor does it anticipate the inclusion of long-term securities or derivative products in its portfolio.

| <u>Fund and Investment Type</u> | <u>Amount</u> |
|--|---------------------------|
| TexPool – Operating Fund | \$3,317,514 |
| TexPool - Interest and Sinking Fund | 310,178 |
| First Financial Bank Interest Bearing Account – Operating Fund | <u>373,001</u> |
| Total Investments | <u>\$4,000,693</u> |

TAX DATA

District Bond Tax Rate Limitation

By law the District's tax rate for debt service on the Bonds is unlimited as to rate or amount

Maintenance and Operations Tax

The Board is also authorized to levy and collect an annual ad valorem tax for planning, constructing, acquiring, or maintaining or repairing or operating the District's improvements and facilities, if such maintenance and operations tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. As shown in APPENDIX A, TABLE 13 - "TAX RATE DISTRIBUTION," the District levied a 2011-2012 maintenance and operations tax for fire protection purposes of \$0.10925/\$100 assessed valuation and \$0.00989/\$100 assessed valuation for all other operations and maintenance purposes.

Overlapping Taxes

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The statement of direct and estimated overlapping ad valorem tax debt shown in APPENDIX A – TABLE 14 (page A-6) was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures. (See APPENDIX A – TABLES 14, 15 & 17 for information on overlapping taxing entities)

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. The Denton Central Appraisal District and the Tarrant Appraisal District have the

responsibility for appraising property for all taxing units within Denton and Tarrant Counties, including the District. Such appraisal values are subject to review and change by the appraisal review boards of each county. The appraisal roll as approved by the appraisal review boards must be used by the District in establishing its tax roll and tax rate.

General: Except for certain exemptions provided by Texas law, all property with a tax situs in the District is subject to taxation by the District; however, no effort is made by the District to collect taxes on tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property applicable to the District include: (i) property owned by the State of Texas or its political subdivisions if the property is used for public purposes; (ii) property exempt from ad valorem taxation by federal law; (iii) certain property owned by charitable organizations, youth development associations, religious organizations, and qualified schools; (iv) designated historical sites; and (v) solar and wind-powered energy devices.

Freeport Exemption: Article VIII, Section 1-j of the Texas Constitution authorizing an ad valorem tax exemption for "freeport property" was approved November 7, 1989. Freeport property is goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. **The District does grant this exemption.**

Goods in Transit: "Goods in Transit", which are certain goods, principally inventory, that are stored, for the purposes of assembling, storing, manufacturing, processing or fabricating the goods, in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days, a taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. **The District does not exempt Goods in Transit.**

Agricultural/Open-Land Exemption: Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1. **The District does have land that qualifies for this exemption.**

Residence Homestead Exemptions: Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. **The Board has granted such elderly and disabled exemptions in the amount of \$25,000 of assessed valuation.**

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000. **The District does not grant the option percentage of market value exemption.**

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created

Disabled/Deceased Veterans Exemption: State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse (for so long as the surviving spouse remains unmarried) or children (under 18 years of age) of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. **The District does grant the disabled / deceased veterans Exemption.**

Tax Abatement. Denton County, Tarrant County or the Town of Trophy Club may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District may enter into tax abatement agreements with owners of real property within the District for up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. **All of the area of the District is included in reinvestment zones designated by the Town of Trophy Club, for tax abatement purposes.**

Valuation of Property for Taxation

Generally, all taxable property in the District must be appraised by the Denton Central Appraisal District and the Tarrant Appraisal District (collectively, the "Appraisal District") at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate.

Certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited to 10 percent annually regardless of the market value of the property. Upon application of a landowner, land which qualifies as "open-space land" is appraised based on the category of land, using accepted income capitalization methods applied to the average net income derived from the use of the land for agriculture and hunting or recreational leases. Upon application of a landowner, land which qualifies as "timber land" is appraised using accepted income capitalization methods applied to the average net income derived from the use of the land for production of timber. Land which qualifies as an aesthetic management zone, critical wildlife management zone, or streamside management zone or is being regenerated for timber production for 10 years after harvest is valued at one-half that amount. In the case of both open space and timber land valuations, if the use of land changes, an additional tax is generally imposed on the land equal to the difference between the taxes imposed on the land for each of the five (5) years preceding the year in which the change of use occurs and the tax that would have been imposed had the land been taxed on the basis of market value in each of those years, plus interest at an annual rate of seven percent (7%) calculated from the dates on which the differences would have become due. There are also special appraisal methods for agricultural land owned by individuals whose primary occupation and income are farming and for recreational, park, and scenic land. Also, houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business, upon application of the owner.

Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property in the Appraisal District at least one every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or countywide basis.

Notice and Hearing Procedures

The Tax Code establishes a "truth-in-taxation" process identifying increases in the effective tax rate. The rollback tax rate equals 108% of the total tax rate for the prior year. If the District decides to increase the tax rate more than eight percent (8%) above the previous year's tax rate, it must hold a public hearing and give notice to its taxpayers. If the actual tax rate adopted exceeds the rollback tax rate, taxpayers may petition to hold an election to reduce the tax rate to the rollback tax rate for the fiscal year.

The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

District and Taxpayer Remedies

The chief appraiser must give written notice before the Appraisal Review Board meeting to an affected owner if a reappraisal has resulted in an increase in value over the prior year or the value rendered by the owner, or if property not previously included on the appraisal roll has been appraised. Any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board of the owner's protest by filing suit in Texas district court. Prior to such appeal, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, but not to exceed the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisal of certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption, or a determination that land qualifies for a special use appraisal (agricultural or timber classification, for example). The District may not, however, protest a valuation of individual property.

Levy and Collection of Taxes

The rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations.

Unless the Board, or the qualified voters of the District or of Denton County or Tarrant County at an election held for such purpose, determines to transfer the collection of taxes to the Denton Central Appraisal District or Tarrant Appraisal District or another taxing unit, the District is responsible for the levy and collection of its taxes. **The District has contracted with the Denton County Tax Collector to collect the taxes for the District.**

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. The date of the delinquency may be postponed if the tax bills are mailed after January 10 of any year. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, one percent (1%) for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, where a district engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to exceed twenty percent 20% on all taxes unpaid on July 1. The District may be prohibited from collection of penalties and interest on real property owned by the Federal Depository Insurance Corporation. In prior years the District has engaged a delinquent tax attorney and imposed such a penalty.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel to the Issuer, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the Issuer will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C - Form of Legal Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the Issuer will rely upon (a) certain information and representations of the Issuer, including information and representations contained in the Issuer's federal tax certificate, and (b) covenants of the Issuer contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the Refunded Bonds and the property financed or refinanced therewith and (c) the certification of the paying agent for the Refunded Bonds that the amount deposited with the Escrow Agent will be sufficient to pay the principal of and interest on the Refunded Bonds when due. Failure by the Issuer to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

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

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the Issuer has made the following agreement for the benefit of the holders and beneficial owners of each of the Bonds. The Issuer is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Issuer will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB")

Annual Reports

The Issuer will provide certain updated financial information and operating data to the MSRB. The District will provide all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement. The information to be updated includes Tables 1, 12 and 13 of Appendix A, and the annual audited financial statements of the District. The Issuer will update and provide this information within six months after the end of each fiscal year ending in and after 2011.

The financial information to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Website or filed with the SEC, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Issuer will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the Issuer may be required to employ from time to time pursuant to State law or regulation.

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

Notice of Certain Events

The Issuer will also provide timely notices of certain events to the MSRB. The Issuer will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Issuer, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

Availability of Information from MSRB

The Issuer has agreed to provide the foregoing financial information and operating data only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations and Amendments

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

The Issuer may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Issuer may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such

provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

For the last five years, the District has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

OTHER PERTINENT INFORMATION

Legal Matters

The delivery of the Bonds is subject to the receipt of an approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the Issuer in the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions "PLAN OF FINANCING", "THE BONDS" (except for subcaptions "Yield on Premium Capital Appreciation Bonds", "Default and Remedies" and "Payment Record" and the second and third sentences under the subcaption "Issuance of Additional Debt"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance With Prior Agreements"), and the subcaptions "Legal Matters" (except for the last two sentences of the second paragraph thereof), "Registration and Qualification of Bonds for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER PERTINENT INFORMATION" to determine whether such information accurately and fairly summarizes the material and documents referred to therein and is correct as to matters of law, and that such information conforms to the Order. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L L P., Dallas, Texas, Counsel for the Underwriter. The legal fees to be paid to Counsel to the Underwriter are contingent upon the sale and delivery of the Bonds.

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

Registration and Qualification of Bonds for Sale

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Litigation

In the opinion of District officials, the Issuer is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the Issuer, would have a material adverse effect on the financial condition of the District.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are real and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See

"RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, obligations such as the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their fair market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The District has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Bonds for such purposes.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the Issuer at a price of \$_____ (representing the par amount of the Bonds of \$_____, plus an original issue premium of \$_____, less an Underwriter's discount of \$_____), plus accrued interest on the Bonds to the date of initial delivery of the Bonds to the Underwriter.

The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Financial Advisor

Southwest Securities is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

Forward-Looking Statements Disclaimer

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

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

Concluding Statement

The financial data and other information contained in this Official Statement have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such statutes, documents and resolutions for further information. Reference is made to original statutes, documents and resolutions in all respects.

This Official Statement will be approved by the Board of Directors of the Issuer for distribution in accordance with the provisions of the U.S. Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

President, Board of Directors
Trophy Club Municipal Utility District No. 1

Secretary, Board of Directors
Trophy Club Municipal Utility District No. 1

SCHEDULE I
SCHEDULE OF REFUNDED BONDS*
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

Unlimited Tax Bonds, Series 2002

(Redemption Date: 9-1-12* @ par plus accrued interest to the Redemption Date)

| <u>Original Dated Date</u> | <u>Original Maturity (August 1)</u> | <u>Principal Amount</u> | <u>Amount to be Refunded</u> | <u>Interest Rates</u> |
|--------------------------------|---|-----------------------------|----------------------------------|---------------------------|
| June 1, 2002 | 2013 | \$ 165,000 | \$ 165,000 | 4.25% |
| | 2014 | 170,000 | 170,000 | 4.35% |
| | 2015 | 180,000 | 180,000 | 4.45% |
| | 2016 | 190,000 | 190,000 | 4.55% |
| | 2017 | 200,000 | 200,000 | 4.70% |
| | 2018 | 210,000 | 210,000 | 4.80% |
| | 2019 | 225,000 | 225,000 ^(a) | 4.95% |
| | 2020 | 235,000 | 235,000 ^(a) | 4.95% |
| | 2021 | 245,000 | 245,000 ^(b) | 5.00% |
| | 2022 | 260,000 | 260,000 ^(b) | 5.00% |
| | 2023 | <u>275,000</u> | <u>275,000</u> | 5.00% |
| | | \$ 2,355,000 | \$ 2,355,000 | |
| Total Refunded Bonds | | | <u>\$ 2,355,000</u> | |

^(a) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2020.

^(b) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2022.

* Preliminary, subject to change.

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