

## **APPENDIX A**

### **FINANCIAL INFORMATION OF THE ISSUER**

(This appendix contains quantitative financial information and operating data with respect to the Issuer. The information is only a partial representation and does not purport to be complete. For further and more complete information, reference should be made to the original documents, which can be obtained from various sources, as noted.)



## FINANCIAL INFORMATION OF THE ISSUER

### ASSESSED VALUATION

**TABLE 1**

2011 Actual Market Value of Taxable Property (100% of Actual) <sup>(a)</sup>		\$ 1,041,294,157
Less Exemptions:		
Local Optional Over-65	\$13,436,103	
Disabled and Deceased Veterans'	2,864,298	
Agricultural Productivity Loss	3,296,361	
Freeport	-	
10% Homestead Cap Value Loss	1,127,925	
Total Exempt Property	22,745,880	
Partial Exempt Property	5,894	43,476,461
2011 Certified Net Taxable Assessed Valuation <sup>(b)</sup>		<u>\$ 997,817,696</u> <sup>(b)</sup>
Less: Taxable Value of Accounts Incomplete/Under Review		<u>\$ (43,172,221)</u>
2011 Certified Net Taxable ARB Approved Assessed Valuation		<u>\$ 954,645,475</u>

<sup>(a)</sup> See "TAXING PROCEDURES" in the Official Statement for a description of the Issuer's taxation procedures.

<sup>(b)</sup> Includes taxable value of incomplete accounts and accounts under ARB Review.

Sources: Denton Central Appraisal District and Tarrant Appraisal District

### GENERAL OBLIGATION BONDED DEBT

**TABLE 2**

<b>General Obligation Debt Principal Outstanding (As of February 1, 2012):</b>		
Unlimited Tax Bonds, Series 2002 (Excludes the Refunded Bonds)	\$	155,000
Unlimited Tax Bonds, Series 2003		840,000
Unlimited Tax Refunding Bonds, Series 2005		1,770,000
Unlimited Tax Bonds, Series 2010		2,000,000
<b>Total General Obligation Debt Principal Outstanding</b>	<b>\$</b>	<b>4,765,000</b>
<b>Current Issue General Obligation Debt Principal</b>		
Unlimited Tax Refunding Bonds, Series 2012 (the "Bonds")	<u>\$</u>	<u>2,355,000</u> *
<b>Total General Obligation Debt Principal Outstanding (Following the Issuance of the Bonds)</b>	<b>\$</b>	<b>7,120,000</b> *
Interest and Sinking Fund Balance as of December 31, 2011 (unaudited)	\$	316,300
Ratio of General Obligation Debt Principal to 2011 Certified Net Taxable ARB Approved Assessed Valuation		0.75% *
2011 Certified Net Taxable ARB Approved Assessed Valuation <sup>(a)</sup>	\$	954,645,475
Population Estimates: 2000 - 6,350; 2010 - 8,042; Current 2011 (Estimate) -		7,600
Per Capita 2011 Certified Net Taxable ARB Approved Assessed Valuation -	\$	125,611
Per Capita General Obligation Debt Principal -	\$	937 *

<sup>(a)</sup> See "TAXING PROCEDURES" in the Official Statement for a description of the Issuer's taxation procedures

\* Preliminary, subject to change.

## OTHER OBLIGATIONS

TABLE 3

<u>Description</u>	<u>Year of Issue</u>	<u>Interest Rate Payable</u>	<u>Final Maturity</u>	<u>Average Annual Payment</u>	<u>Original Amount</u>	<u>Principal Outstanding as of 9-30-11</u>
<b>Public Property Finance Contractual Obligations:</b>						
Improvements	2004	3.50%	2012	\$ 39,000	\$ 270,000	\$ 33,750
Fire Truck	2007	4.33%	2014	56,000	448,000	201,000
Improvements	2009	3.90%	2012	110,000	330,000	114,234
						<u>\$ 348,984</u>
<b>Notes Payable:</b>						
Equipment	1999	2.50%	2018	\$ 2,245	\$ 35,000	\$ 14,259
Equipment	2010	3.90%	2015	\$ 201,318	\$ 179,955	143,964
						<u>\$ 158,223</u>
<b>Capital Lease Obligations:</b>						
Equipment	2008	4.00%	2012	\$ 9,886	\$ 49,432	\$ 9,886
<b>Revenue Debt Payable:</b>						
Water Storage Improvements	2012	2.87%	2014	\$ 383,709	\$ 1,100,000	<u>\$ 1,100,000</u>
<b>Total Other Obligations</b>						<u>\$ 1,617,093</u>

## GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year Sept 30	Current Total Debt Service Outstanding <sup>(a)</sup>	Less:		The Bonds*			Combined Debt Service*
		Refunded Bonds Debt Service*		Principal	Interest	Total	
2012	\$ 866,300	\$ 56,156	\$	20,000	\$ 36,850	\$ 56,850	\$ 866,994
2013	865,595	277,313		155,000	103,300	258,300	846,583
2014	659,123	275,300		185,000	73,300	258,300	642,123
2015	657,938	277,905		190,000	69,600	259,600	639,633
2016	660,938	279,895		195,000	63,900	258,900	639,943
2017	667,868	281,250		205,000	58,050	263,050	649,668
2018	668,468	281,850		210,000	51,900	261,900	648,518
2019	672,838	286,770		220,000	45,600	265,600	651,668
2020	670,738	285,633		230,000	39,000	269,000	654,105
2021	672,768	284,000		235,000	29,800	264,800	653,568
2022	678,533	286,750		250,000	20,400	270,400	662,183
2023	676,463	288,750		260,000	10,400	270,400	658,113
2024	153,183	-		-	-	-	153,183
2025	152,683	-		-	-	-	152,683
2026	148,083	-		-	-	-	148,083
2027	153,368	-		-	-	-	153,368
2028	153,243	-		-	-	-	153,243
2029	152,783	-		-	-	-	152,783
2030	152,113	-		-	-	-	152,113
2031	151,163	-		-	-	-	151,163
	<u>\$ 9,634,180</u>	<u>\$ 3,161,571</u>	<u>\$</u>	<u>2,355,000</u>	<u>\$ 602,100</u>	<u>\$ 2,957,100</u>	<u>\$ 9,429,709</u>

<sup>(a)</sup> Does not include Public Property Finance Contractual Obligations indebtedness (see Table 3, page A-2).

\* Preliminary, subject to change

## TAX ADEQUACY

TABLE 5

2011 Certified Net Taxable ARB Approved Assessed Valuation	\$ 954,645,475
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-12)*	\$ 866,994 *
Indicated Maximum Interest and Sinking Fund Tax Rate at 99% collections	\$ 0.09174 *

\* Preliminary, subject to change.

Note: Above computation is exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

## INTEREST AND SINKING FUND MANAGEMENT INDEX

TABLE 6

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2011 (Unaudited)	\$ 107,847
FY 2012 Interest and Sinking Fund Tax Levy of \$0.05586 at 99% Collections based on the 2011 Certified Net Taxable ARB Approved Assessed Valuation of \$954,645,475 Produces	527,932
FY 2012 Interest and Sinking Fund Deposit from Fire Department Rental Income	308,000
FY 2012 Budgeted Income from PID Utility Connection Fees Paid by Developer (guaranteed with bank letter of credit) (to be deposited to I&S Fund on or before June 2012)	6,120
Total Available for Debt Service	\$ 949,900
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-12	866,994 *
Estimated Surplus at Fiscal Year Ending 9-30-12 <sup>(a)</sup>	\$ 82,906 *

<sup>(a)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

\* Preliminary, subject to change

**PROJECTED GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

**TABLE 7**

(As of February 1, 2012)

Fiscal Year Ending 9/30	Principal Repayment Schedule			Bonds Unpaid at End of Year*	Percent of Principal Retired (%)*
	Outstanding Bonds <sup>(a)</sup>	The Bonds*	Total*		
2012	\$ 565,000	\$ 20,000	\$ 585,000	\$ 6,535,000	8.22%
2013	420,000	155,000	575,000	5,960,000	16.29%
2014	230,000	185,000	415,000	5,545,000	22.12%
2015	235,000	190,000	425,000	5,120,000	28.09%
2016	245,000	195,000	440,000	4,680,000	34.27%
2017	260,000	205,000	465,000	4,215,000	40.80%
2018	270,000	210,000	480,000	3,735,000	47.54%
2019	280,000	220,000	500,000	3,235,000	54.56%
2020	290,000	230,000	520,000	2,715,000	61.87%
2021	305,000	235,000	540,000	2,175,000	69.45%
2022	320,000	250,000	570,000	1,605,000	77.46%
2023	330,000	260,000	590,000	1,015,000	85.74%
2024	110,000	-	110,000	905,000	87.29%
2025	115,000	-	115,000	790,000	88.90%
2026	115,000	-	115,000	675,000	90.52%
2027	125,000	-	125,000	550,000	92.28%
2028	130,000	-	130,000	420,000	94.10%
2029	135,000	-	135,000	285,000	96.00%
2030	140,000	-	140,000	145,000	97.96%
2031	145,000	-	145,000	-	100.00%
	<u>\$ 4,765,000</u>	<u>\$ 2,355,000</u>	<u>\$ 7,120,000</u>		

<sup>(a)</sup> Excludes the Refunded Bonds and all PPFCD principal outstanding (see Table 3, page A-2).

\* Preliminary, subject to change

**FUND BALANCES**

**TABLE 8**

	As of 9-30-11	Unaudited As of 12-31-11
General Fund	\$ 3,338,441	\$ 3,442,735
Debt Service Fund	107,847	316,300
<b>Total</b>	<b>\$ 3,446,288</b>	<b>\$ 3,759,035</b>

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2007-2011 <sup>(a)</sup>**

**TABLE 9**

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent (%)
2007	912,618,000	101,404,000	12.50%
2008	960,911,000	48,293,000	5.29%
2009	1,015,777,389 <sup>(b)</sup>	54,866,389	5.71%
2010	978,509,574 <sup>(b)</sup>	-37,267,815	-3.67%
2011	954,645,475 <sup>(b)</sup>	-23,864,099	-2.44%

<sup>(a)</sup> Historical comparison 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).

<sup>(b)</sup> Excludes valuation for incomplete accounts and accounts under ARB review, as of certification.

Sources: Denton Central Appraisal District, Tarrant Appraisal District and Issuer's 2009 Audited Financial Statements (Supplemental Information)

Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

TABLE 10

## CLASSIFICATION OF ASSESSED VALUATION

Category	2011	% of Total	2010	% of Total	2009	% of Total	2008	% of Total	2007	% of Total
<b>Land</b> <sup>(1)</sup>	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ 186,574,000	18.75%	\$ 213,640,000	22.56%
Land - Homestead	193,352,075	18.57%	189,642,427	18.32%	188,045,683	17.48%	-	0.00%	-	0.00%
Land - Non Homestead	236,144,259	22.68%	248,891,821	24.04%	271,606,898	25.24%	-	0.00%	-	0.00%
Land - Agricultural	3,304,866	0.32%	3,957,829	0.38%	3,998,666	0.37%	-	0.00%	-	0.00%
Land - Agricultural	-	0.00%	-	0.00%	-	0.00%	737,273,000	74.10%	638,560,000	67.43%
<b>Improvements</b> <sup>(1)</sup>	497,180,522	47.75%	498,665,743	48.16%	505,293,510	46.96%	-	0.00%	-	0.00%
Improvements - Homestead	19,001,251	1.82%	19,724,323	1.90%	26,769,054	2.49%	-	0.00%	-	0.00%
Improvements - Non Homestead	91,866,777	8.82%	73,302,378	7.08%	70,157,777	6.52%	71,091,000	7.15%	94,823,000	10.01%
<b>Personal Property</b> <sup>(1)</sup>	444,407	0.04%	1,263,858	0.12%	10,174,220	0.95%	-	0.00%	-	0.00%
<b>Mineral Property</b>	-	-	-	-	-	-	-	-	-	-
<b>Total Appraised Value</b>	\$ 1,041,294,157	100.00%	\$ 1,035,448,379	100.00%	\$ 1,078,047,808	100.00%	\$ 994,938,000	100.00%	\$ 947,023,000	100.00%
<b>Less Exemptions:</b>										
<b>Exemptions</b> <sup>(1)</sup>	\$ -	-	\$ -	-	\$ -	-	\$ 34,027,000	-	\$ 34,405,000	-
Optional Over-65	13,436,103	-	12,886,387	-	11,972,353	-	-	-	-	-
Disabled and Deceased Veterans'	2,864,298	-	1,805,306	-	1,287,007	-	-	-	-	-
Agricultural Productivity Loss	3,296,361	-	3,949,539	-	3,990,915	-	-	-	-	-
Freight	-	-	-	-	58,351	-	-	-	-	-
Homestead Cap Adjustment	1,127,925	-	1,391,082	-	2,957,045	-	-	-	-	-
Total Exempt Property	22,745,880	-	22,572,987	-	22,740,838	-	-	-	-	-
Partial Exempt Property	5,894	-	131,554	-	7,208	-	-	-	-	-
<b>Total Exemptions</b>	\$ 43,476,461	-	\$ 42,736,855	-	\$ 43,013,717	-	\$ 34,027,000	-	\$ 34,405,000	-
<b>Certified Net Taxable Assessed Valuation</b>	\$ 997,817,696	-	\$ 992,711,524	-	\$ 1,033,034,091	-	\$ 960,911,000	-	\$ 912,618,000	-
<b>Less: Taxable Value of Accounts Incomplete/Under Review</b>	\$ (43,172,221)	-	\$ (14,201,850)	-	\$ (17,256,702)	-	-	-	-	-
<b>Certified Net Taxable ARB Approved Assessed Valuation</b>	\$ 954,645,475	-	\$ 978,509,674	-	\$ 1,015,777,389	-	-	-	-	-

<sup>(1)</sup> Historical comparison 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) and detailed information for Land, Improvements and Exemptions is not available.

Source: Denton Central Appraisal District, Tarrant Appraisal District and Issuer's 2010 Audited Basic Financial Statements (Supplemental Information)

Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

**PRINCIPAL TAXPAYERS 2011-2012**
**TABLE 11**

Name	Type of Property	2011 Net Taxable	% of Total 2011
		Assessed Valuation	Assessed Valuation
Maguire Thomas Partners ETAL <sup>(a)</sup>	Commercial Office Complex	\$ 146,398,876	15.34%
Corelogic Real Estate	Commercial Real Estate	18,050,838	1.89%
CNL RETMT CRSI Trophy Club Texas LP	Medical Plaza / Hospital	17,800,000	1.86%
Marsh USA Inc	Insurance Consultant / Data Center	10,030,377	1.05%
First American Leasing	Commercial Office Complex	8,804,230	0.92%
Levi Strauss & Co.	Commercial Office	8,637,483	0.90%
Regency Centers LP	Retail Grocery	7,094,526	0.74%
Trophy Club Medical Center	Healthcare Services	6,163,459	0.65%
BDMR Development LLC	Real Estate Development	5,956,889	0.62%
Armore Trophy Club LLC	Real Estate Development	5,665,875	0.59%
<b>Total</b>		<b>\$ 234,602,553</b>	<b>24.57%<sup>(b)</sup></b>

Based on a 2011 Certified Net Taxable ARB Approved Assessed Valuation of \$ 954,645,475 <sup>(b)</sup>

<sup>(a)</sup> Although Maguire Thomas Partners ("Maguire") owns the Solana business complex ("Solana"), which comprises the entire taxable assessed valuation shown above, 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. Notwithstanding the receivership and possible foreclosure sale, the property taxes for the current have been paid. The District cannot predict the impact that such events may have on the District's financial condition. See "THE DISTRICT" in the Official Statement for information on the current status of the District's commercial and retail development.

<sup>(b)</sup> Excludes taxable values for incomplete accounts and accounts under ARB Review.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas and the Denton Central Appraisal District

**PROPERTY TAX RATES AND COLLECTIONS <sup>(a) (b)</sup>**
**TABLE 12**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Adjusted Tax Levy	% Collections		Fiscal Year Ended
				Current	Total	
2006	\$ 811,214,000	\$ 0.280000	\$ 2,191,536	100.62%	100.36%	9-30-07
2007	912,618,000	0.230000	2,234,909	100.62%	100.36%	9-30-08
2008	960,911,000	0.244615	2,380,679	98.94%	99.58%	9-30-09
2009	1,015,777,389 <sup>(c)</sup>	0.205000	2,091,414	99.66%	100.75%	9-30-10
2010	978,509,574 <sup>(c)</sup>	0.195000	2,047,972	99.58%	100.36%	9-30-11
2011	954,645,475 <sup>(c)</sup>	0.175000	1,923,848 <sup>(d)</sup>	In Process of Collection		9-30-12

<sup>(a)</sup> See "TAXING PROCEDURES - Levy and Collection of Taxes" in the body of the Official Statement for a complete discussion of the District's provisions.

<sup>(b)</sup> Historical comparison information for Tax Years 2006-2008 represents the combined totals from two separate entities (Trophy Club MUD NO. 1 and Trophy Club MUD NO. 2).

<sup>(c)</sup> Excludes value of incomplete accounts and accounts under ARB review, as of certification.

<sup>(d)</sup> As of December 31, 2011.

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Denton Central Appraisal District and the Issuer.  
Note: Assessed Valuations may change during the year due to various supplements and protests, and valuations on a later date or in other tables of this Official Statement may not match those shown on this table.

**TAX RATE DISTRIBUTION <sup>(a)</sup>**
**TABLE 13**

	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07
Operations	\$0.009890	\$0.008790	\$0.027140	\$0.014040	\$0.010200	\$0.030900
Fire Protection	0.109250	0.109250	0.109140	0.116020	0.120900	0.102700
Debt Service	0.055860	0.076960	0.068720	0.114555	0.098900	0.146400
<b>TOTAL</b>	<b>\$ 0.175000</b>	<b>\$ 0.195000</b>	<b>\$ 0.205000</b>	<b>\$ 0.244615</b>	<b>\$ 0.230000</b>	<b>\$ 0.280000</b>

<sup>(a)</sup> Historical comparison information for Tax Years 2006-2008 represents the combined totals from two separate entities (Trophy Club MUD No. 1 and Trophy Club MUD No. 2).

Sources: Texas Municipal Report published by the Municipal Advisory Council of Texas



DIRECT AND OVERLAPPING DEBT DATA INFORMATION

TABLE 14

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Texas Municipal Advisory Council. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the date stated, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

<u>Taxing Body</u>	<u>As of</u>	<u>Gross Debt Principal</u>	<u>% Overlapping</u>	<u>Amount Overlapping</u>
Carroll Independent School District	02-01-12	249,710,039	3.57%	\$ 8,914,648
Denton County	02-01-12	477,705,000	1.20%	5,732,460
Northwest Independent School District	02-01-12	249,710,039	1.95%	4,869,346
Tarrant County	02-01-12	335,050,000	0.20%	670,100
Tarrant County College District	02-01-12	29,780,000	0.20%	59,560
Tarrant County Hospital District	02-01-12	27,160,000	0.20%	54,320
Town of Trophy Club	02-01-12	12,444,000	94.53%	11,763,313
Westlake, Town of	02-01-12	21,725,000	21.69%	4,712,153
Total Net Overlapping Debt		\$1,403,284,078		\$ 36,775,900
Trophy Club MUD No. 1	02-01-12	7,120,000 <sup>(a)**</sup>	100.00%	7,120,000 <sup>(a)**</sup>
Total Gross Direct Principal and Overlapping Debt		\$1,410,404,078		\$ 43,895,900 <sup>(a)**</sup>
Ratio of Direct and Overlapping Debt to 2011 Certified Net Taxable ARB Approved Assessed Valuation				4.60% <sup>(a)**</sup>
Ratio of Direct and Overlapping Debt to 2011 Market Value				4.22% <sup>(a)**</sup>
Per Capita Direct and Overlapping Debt				\$5,776 <sup>(a)**</sup>

<sup>(a)</sup> Includes the Bonds and excludes the Refunded Bonds.

\* Preliminary, subject to change.

Source: Most Recent Texas Municipal Reports published by the Municipal Advisory Council of Texas.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 15

<u>Governmental Entity</u>	<u>2011 Net Taxable Assessed Valuation</u>	<u>% of Actual</u>	<u>2011 Tax Rate</u>
Carroll Independent School District	\$ 5,554,170,040	100%	\$ 1.415000
Denton County	53,491,990,714	100%	0.277357
Northwest Independent School District	10,307,632,937	100%	1.375000
Tarrant County	123,043,200,369	100%	0.264000
Tarrant County College District	123,490,855,713	100%	0.148970
Tarrant County Hospital District	123,134,885,714	100%	0.227897
Town of Trophy Club	759,499,967	100%	0.530000
Westlake, Town of	1,091,999,232	100%	0.156840

Source: Most recent Texas Municipal Reports published by The Municipal Advisory Council of Texas and Denton and Tarrant County Appraisal Districts

**AUTHORIZED BUT UNISSUED DIRECT GENERAL OBLIGATION BONDS**

**TABLE 16**

<u>Taxing Body</u>	<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>This Issue</u>	<u>Unissued</u>
Trophy Club MUD No. 1	10-07-75	Water & Sewer	\$ 12,344,217	\$ 11,115,000	\$ -	\$ 1,229,217
	04-04-81	Water & Sewer	5,800,000	3,760,000	-	2,040,000
	10-29-88	Water & Sewer	2,500,000	-	-	2,500,000
			<u>\$ 20,644,217</u>	<u>\$ 14,875,000</u>	<u>\$ -</u>	<u>\$ 5,769,217</u>

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS  
OF OVERLAPPING GOVERNMENTAL ENTITIES**

**TABLE 17**

<u>Taxing Body</u>	<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>Unissued</u>
Carroll ISD	None				
Denton County	01-16-99	Road	\$ 85,320,000	\$ 77,629,375	\$ 7,690,625
	05-15-04	Road	186,970,000	176,610,527	10,359,473
	05-15-04	County Offices	17,900,000	17,900,000	-
	05-15-04	Equipment	2,000,000	-	2,000,000
	11-04-08	Road	310,000,000	102,161,781	207,838,219
	11-04-08	County Buildings	185,000,000	82,174,444	102,825,556
			<u>\$ 787,190,000</u>	<u>\$456,476,127</u>	<u>\$ 330,713,873</u>
Northwest ISD	05-10-08	School Buildings	\$ 260,000,000	\$ 170,000,000	\$ 90,000,000
Tarrant County	04-04-87	Courthouse Improv.	\$ 47,000,000	\$ 46,500,000	\$ 500,000 <sup>(a)</sup>
	08-08-98	Law Enforcement Ctr	70,600,000	63,100,000	7,500,000
	08-08-98	Healthcare Facility	9,100,000	1,000,000	8,100,000
	08-08-98	Jail	14,600,000	14,600,000	-
	05-13-06	Road & Bridge	200,000,000	126,700,000	73,300,000
	05-13-06	Jail	108,000,000	108,000,000	-
	05-13-06	County Buildings	62,300,000	47,300,000	15,000,000
	05-13-06	Juvenile Deten. Ctr.	36,320,000	4,200,000	32,120,000
	05-13-06	County Offices	26,500,000	26,500,000	-
			<u>\$ 574,420,000</u>	<u>\$437,900,000</u>	<u>\$ 136,520,000</u>
Tarrant Co. College Dist	None				
Tarrant Co. Hospital Dis	None				
Trophy Club, Town of	11-16-09	Parks & Recreation	\$ 5,000,000	\$ -	\$ 5,000,000
Westlake, Town of	None				

<sup>(a)</sup> The County will not issue authorization due to age

Source: Most recent Texas Municipal Reports published by The Municipal Advisory Council of Texas and the Issuer.

**GENERAL FUND COMPARATIVE SCHEDULES OF  
REVENUES AND EXPENDITURES**

**TABLE 18**

	Fiscal Year Ended September 30				
	2011	2010	2009	2008	2007
<b>Revenue and Other Financing Sources:</b>					
Ad Valorem Property Taxes	\$ 1,311,296	\$ 1,491,564	\$ 1,283,705	\$ 1,002,608	\$ 909,495
Water & Wastewater Charges	5,323,244	3,919,084	3,721,868	3,678,859	3,151,144
Utility Fees	165,600	80,500	515,200	-	-
Inspection and Tap Fees	8,560	5,775	4,975	22,550	32,900
Interest Earned	5,534	6,171	20,755	69,447	106,168
Intergovernmental Revenues	89,330	-	-	-	-
Oversize Meter Reimbursements	70,594	-	-	-	-
Capital Proceeds/Contractual Obligations	-	-	330,000	49,432	-
Miscellaneous and Other	80,906	191,498	199,780	116,295	131,124
<b>Total Revenues and Other Financing Sources:</b>	<b>\$ 7,055,064</b>	<b>\$ 5,694,592</b>	<b>\$ 6,076,283</b>	<b>\$ 4,939,191</b>	<b>\$ 4,330,831</b>
<b>Expenditures and Other Financing Uses:</b>					
Administrative	\$ 864,263	\$ 993,986	\$ 1,297,613	\$ 905,052	\$ 835,590
Water Operations	2,271,490	1,882,511	1,811,385	1,934,792	1,638,294
Wastewater Operations	598,465	711,382	999,388	500,224	480,798
Wastewater Collection System	277,775	308,798	294,869	409,948	402,482
Information Systems	123,605	182,658	175,698	187,908	124,987
Contribution to Trophy Club Fire Dept.	770,123	876,521	783,736	902,353	725,764
Miscellaneous	177,809	558,000	383,009	45,457	135,121
Capital Outlay	515,884	-	-	29,379	442,782
Debt Service	240,245	-	-	29,379	442,782
<b>Total Expenditures and Other Financing Uses:</b>	<b>\$ 5,839,659</b>	<b>\$ 5,513,856</b>	<b>\$ 5,745,698</b>	<b>\$ 4,944,492</b>	<b>\$ 5,228,600</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>\$ 1,215,405</b>	<b>\$ 180,736</b>	<b>\$ 330,585</b>	<b>\$ (5,301)</b>	<b>\$ (897,769)</b>
<b>Other Financing Sources (Uses)</b>	<b>(889,878)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Beginning Fund Balance - October 1 (Restated)</b>	<b>3,012,914</b>	<b>2,832,178</b>	<b>2,501,593</b>	<b>2,477,515</b>	<b>2,932,502</b>
<b>Ending Fund Balance - September 30</b>	<b>\$ 3,338,441</b>	<b>\$ 3,012,914</b>	<b>\$ 2,832,178</b>	<b>\$ 2,472,214</b>	<b>\$ 2,034,733</b>
<b>Total Active Retail Connections</b>					
Water and/or Wastewater Connections	3,554	3,361	3,161	3,092	2,827

**NOTE:** Historical comparison information for Fiscal Years 2007-2008 represents the combined totals from two separate entities (Trophy Club MUD No. 1 and Trophy Club MUD No. 2)

Source: The Issuer's Audited Financial Statements

**DEBT SERVICE FUND COMPARATIVE SCHEDULES OF  
REVENUES AND EXPENDITURES**

**TABLE 19**

	Fiscal Year Ended September 30				
	2011	2010	2009	2008	2007
<b>Revenue and Other Financing Sources:</b>					
Ad Valorem Property Taxes	\$ 777,648	\$ 740,420	\$ 1,100,081	\$ 1,302,763	\$ 1,325,143
Penalties and Interest	-	-	12,225	-	-
Transfers In / Utility Fees	246,100	653,000	383,009	-	-
Interest Earned	985	4,848	4,105	23,326	43,456
Miscellaneous and Other	-	1,000	-	29,379	29,379
<b>Total Revenues and Other Financing Sources:</b>	<b>\$ 1,024,733</b>	<b>\$ 1,399,268</b>	<b>\$ 1,499,420</b>	<b>\$ 1,355,468</b>	<b>\$ 1,397,978</b>
<b>Expenditures and Other Financing Uses:</b>					
Principal Retirement	\$ 1,115,000	\$ 1,055,000	\$ 1,025,000	\$ 975,000	\$ 945,000
Interest and Fiscal Charges	382,019	311,570	352,195	390,565	425,838
<b>Total Expenditures and Other Financing Uses:</b>	<b>\$ 1,497,019</b>	<b>\$ 1,366,570</b>	<b>\$ 1,377,195</b>	<b>\$ 1,365,565</b>	<b>\$ 1,370,838</b>
<b>Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>\$ (472,286)</b>	<b>\$ 32,698</b>	<b>\$ 122,225</b>	<b>\$ (10,097)</b>	<b>\$ 27,140</b>
<b>Other Financing Sources:</b>	<b>\$ 308,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Beginning Fund Balance - October 1 (Restated) (Restated)</b>	<b>272,132</b>	<b>239,434</b>	<b>117,209</b>	<b>N/A</b>	<b>N/A</b>
<b>Ending Fund Balance - September 30</b>	<b>\$ 107,846</b>	<b>\$ 272,132</b>	<b>\$ 239,434</b>	<b>N/A</b>	<b>N/A</b>

**NOTE:** Historical comparison information for Fiscal Years 2007-2008 represents the combined totals from two separate entities (Trophy Club MUD No. 1 and Trophy Club MUD No. 2)

N/A = Not Available

Source: The Issuer's Audited Financial Statements

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE TOWN OF TROPHY CLUB AND DENTON COUNTY, TEXAS**



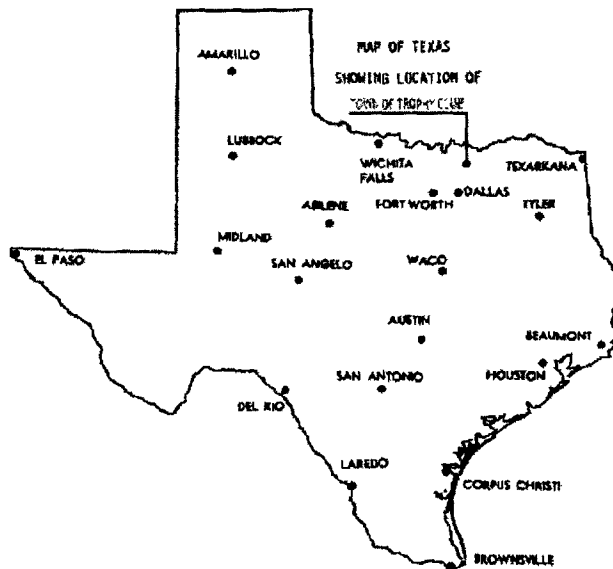
# **GENERAL INFORMATION REGARDING THE TOWN OF TROPHY CLUB AND DENTON COUNTY, TEXAS**

## **TOWN OF TROPHY CLUB**

### **General**

The Town of Trophy Club (the "Town"), incorporated in January of 1985 is Texas's first premiere planned residential and country-club community. The Town is located in the southern portion of the Denton County (the "County") on State Highway 114 approximately 8 miles west of the City of Grapevine, 17 miles south of the City of Denton and 14 miles northwest of the Dallas-Fort Worth International Airport. Lake Grapevine is located approximately 2 miles north and east of the Town. The majority of property within the Town consists of single-family and multi-family housing. The Solana Business Complex is located adjacent to the Town's eastern border in the cities of Westlake and Southlake. Both residents and businesses of the Town are furnished water and wastewater treatment from Trophy Club Municipal Utility District No. 1. The Town's 2010 Census was 8,024, which is a 26.65% increase over the 2000 Census. The Town's 2011 population estimate is 8,895.

*Source: Latest Texas Municipal Report published by the Municipal Advisory Council of Texas, U.S. Census Report, North Central Texas Council of Governments and the Town of Trophy Club.*



### **Population:**

<u>Year</u>	<u>Town of Trophy Club</u>	<u>Denton County</u>
2011 Estimate	8,895	673,780
2010 Census	8,024	662,614
2000 Census	6,350	423,976
1990 Census	3,922	273,525
1980 Census	N/A	143,126

*Sources: United States Bureau of the Census, North Central Texas Council of Government and the Town of Trophy Club*

### Leading Employers in the District:

<u>Employer</u>	<u>Type of Business</u>	<u>Number of Employees (2011)</u>
Maguire Partners <sup>(a)</sup>	Commercial Office Complex	3,531
Northwest Independent School District	Public School District	267
Baylor Medical at Trophy Club	Healthcare	125
Trophy Club Country Club	Country Club	100
Tom Thumb	Retail Grocery	90
Town of Trophy Club & Trophy Club MUD #1	Municipal Governmental Entities	78
Merryhill	Daycare	31
Bank of America	Financial Institution	7
First Financial Bank	Financial Institution	7
Quizno's	Delicatessen	4
Beck Properties	Real Estate Development	4

<sup>(a)</sup> See "THE DISTRICT - Status of Business/Commercial Development" and APPENDIX A "Table 11 - Principal Taxpayers 2011-2012" herein for a description of the current status of the property owned by Maguire Partners ("Maguire"). The District cannot predict the impact that such events may have on Maguire's operations or its employees in the District.  
Source: Information from the Issuer

### Education

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, Rhame, 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).

Source: Information from Northwest Independent School District and the Town of Trophy Club

## DENTON COUNTY

### General

Denton County (the "County") is located in north central Texas. The County was created in 1846. It is the eighth most populous county in the state occupying a land area of 911 square miles. The population of the County has grown by over 55% since the 2010 census and 2% since the 2010 census. The County seat is the City of Denton.

The economy is diversified by manufacturing, state supported institutions, and agriculture. The Texas Almanac designates cattle, horses, poultry, hay and wheat as the principal sources of agricultural income. Minerals produced in Denton County include natural gas and clay.

Institutions of higher education include University of North Texas and Texas Woman's University with a combined 2011 fall enrollment of over 43,000.

Nearby Lake Lewisville attracts over 3,000,000 visitors annually.

Alliance Airport, the largest industrial airport in the world is located in the county and continues to attract new transportation, distribution, and manufacturing tenants. The Texas Motor Speedway, a major NASCAR race track, was completed in 1997 and has had a positive impact on employment and recreational spending for the area. A major Wal-Mart distribution center located in Sanger is adding to the growth of the northern portion of the County. Robson Development is constructing one of the nation's largest new communities for retired citizens in the southern portion of the County.

Source: Texas Municipal Report and information from the County.



### Major Employers in Denton County

Employer	Principal Line of Business	Number of Employees
University of North Texas	Education	7,100
Lewisville Independent School District	Education	4,500
Frito Lay Co	Distribution Center	2,436
American Airlines	Airline	2,350
Texas Women's University	Education	2,200
Denton Independent School District	Education	2,000
Horizon Health	Healthcare	1,500
Denton State School	MHMR Facility	1,473
Denton County	County Government	1,467
Xerox Corporation	Office Equipment	1,400
City of Denton	Municipality	1,200
Federal Express	Mail Center	863
Denton Reg. Medical Center	Medical Center	850
Wal-Mart Distribution Center	Distribution Center	800
FEMA	Emergency Management	750

Source: Denton County Economic Development and ONCOR Community Profiles

### Labor Force Statistics

	Denton County	
	December 2011	December 2010
Civilian Labor Force	362,724	356,579
Total Employed	339,700	330,862
Total Unemployed	23,024	25,717
% Unemployed	6.3%	7.2%
% Unemployed (Texas)	7.2%	8.0%
% Unemployed (United States)	8.3%	9.1%

Source: Texas Workforce Commission, Labor Market Information Department.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**



**Proposed Form of Opinion of Bond Counsel**

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

[DATE OF DELIVERY]

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1  
UNLIMITED TAX REFUNDING BONDS  
SERIES 2012  
DATED MARCH 1, 2012  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$\_\_\_\_\_**

**AS BOND COUNSEL FOR TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1** (the "District") issuer of the Bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the Order of the District authorizing the issuance and sale of the Bonds (the "Order").

**WE HAVE EXAMINED** the Constitution and laws of the State of Texas, and other documents authorizing and relating to the issuance of said Bonds, including one of the executed Bonds (Bond Number T-1), and specimens of Bonds to be authenticated and delivered in exchange for the Bonds.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT** the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered, and that, assuming due authentication, Bonds issued in exchange therefor will have been duly delivered, in accordance with law, and that said Bonds, except as may be limited by laws applicable to the District relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes to be levied and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District or if the District consolidates with another District.

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

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds.

**WE CALL YOUR ATTENTION TO THE FACT THAT** the interest on tax-exempt obligations, such as the Bonds, is included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code.

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

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

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

Respectfully,

#### **APPENDIX D**

##### **EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2010**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements - not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)







## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Trophy Club Municipal Utility District No. 1  
Trophy Club, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Trophy Club Municipal Utility District No. 1, (the District), as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Trophy Club Municipal Utility District No. 1 as of September 30, 2011, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, and budgetary comparison information on pages 3 through 10 and 35 through 36, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued a report dated January 31, 2012 on our consideration of the District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Trophy Club Municipal Utility District No. 1's basic financial statements. The accompanying individual schedules and other supplementary information listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying individual schedules and other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*LaFollett and Company PLLC*

LaFollett & Company, PLLC  
Tom Bean, Texas  
January 31, 2012

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

Trophy Club Municipal Utility District No. 1, Texas (the "District") Management's Discussion and Analysis (MD&A) is a narrative overview and analysis designed to provide the reader a means to identify and understand the financial activity of the District and changes in the District's financial position during the fiscal year ended September 30, 2011.

The Management's Discussion and Analysis is supplemental to, and should be considered along with, the District's financial statements.

**Financial Highlights**

At the close of the fiscal year, the assets of the District exceeded its liabilities by \$12,262,122. Of this amount, \$3,123,113 is unrestricted net assets and may be used to meet the District's ongoing commitments.

The District's net assets increased by \$1,991,485 as a result of operations.

At the end of the fiscal year, the District's governmental type funds reported a combined fund balance of \$3,143,822.

As of September 30, 2011, the unassigned fund balance of the General Fund was \$2,509,429, which is equal to 42% of total General Fund expenditures.

The governmental long-term debt bond obligations of the District decreased by \$1,115,000.

**Overview of the Financial Statements**

The MD&A is intended to introduce the reader to the District's basic financial statements, which are comprised of three components: 1. Government-Wide Financial Statements, 2. Fund Financial Statements, and 3. Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements – the government wide financial statements are designed to provide the reader with a general overview of the District's finances in a way that is comparable with financial statements from the private sector. The government-wide financial statements consist of two statements:

1. The Statement of Net Assets – (Page 11) this statement presents information on all of the District's assets and liabilities; the difference between the two is reported as net assets. Over an extended period, the increase or decrease in net assets will serve as a good indicator of whether the financial position of the District is improving or deteriorating.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

**Overview of the Financial Statements – continued**

2. The Statement of Activities – (Page 12) gives information showing how the District's net assets have changed during the fiscal year. All revenues and expenses are reported on the full accrual basis.

**Fund Financial Statements** - Fund financial statements provide detailed information about the most important funds and not about the District as a whole as in the government-wide financial statements.

The District uses fund accounting to demonstrate compliance with finance related legal requirements which can be categorized as governmental fund activities.

**Governmental Funds** – All of the District's activities are reported in governmental funds. They are used to account for those functions known as governmental activities. But unlike government-wide financial statements, governmental fund financial statements focus on how monies flow into and out of those funds and their resulting balances at the end of the fiscal year. Statements of governmental funds provide a detailed short-term view of the District's general government operations and the basic services it provides. Such information can be useful in evaluating a government's short-term financing requirements.

The District maintains three governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, all of which are considered to be major funds.

The District adopts annual appropriated budgets for the General Fund and Debt Service Funds. A budgetary comparison statement is provided for each annually budgeted fund to demonstrate compliance with its budget.

**Notes to the Basic Financial Statements** – The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17-34.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

**Overview of the Financial Statements - continued**

**Government-wide Financial Analysis**

The management discussion and analysis highlights the information provided in both the Statement of Net Assets and Statement of Activities in the government-wide financial statements. It may serve over an extended period of time, as a useful indicator of the District's financial position. At the end of the fiscal year, the District's assets exceeded liabilities by \$12,262,122. Of this amount \$9,031,162 (74%) reflects the District's investment in capital assets (e.g., land, buildings, machinery and equipment, net of accumulated depreciation), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide service to the community; therefore these assets are not available for future spending.

Table 1  
Condensed Statements of Net Assets

	Governmental Activities 2011	Governmental Activities 2010
Current and other	\$ 4,782,322	\$ 6,211,302
Capital assets	16,742,462	14,187,749
Total Assets	<u>21,524,784</u>	<u>20,399,051</u>
Long-term liabilities	6,850,903	9,080,647
Other liabilities	2,411,759	1,047,767
Total liabilities	<u>9,262,662</u>	<u>10,128,414</u>
Net Assets:		
Invested in capital assets, net of related debt	9,031,162	7,648,983
Restricted	107,847	262,048
Unrestricted	<u>3,123,113</u>	<u>2,359,606</u>
Total Net Assets (FY10 restated)	<u>\$ 12,262,122</u>	<u>\$ 10,270,637</u>

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

District operational analysis – The following table provides a summary analysis of the District's consolidated operations for the fiscal years ended September 30, 2011 and 2010. Governmental activities have increased the District's net assets by \$1,991,485, which amounts to a 19% increase in net assets for the year ended September 30, 2011.

Table 2  
Changes in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
Revenue:		
Program revenue		
Charges for services	\$ 5,814,098	\$ 4,351,155
Grants and Contributions	89,330	11,200
General Revenue		
Ad valorem taxes	2,081,548	2,216,287
Unrestricted investment earnings	7,573	12,724
Miscellaneous	80,908	179,502
Total Revenue	<u>8,073,457</u>	<u>6,770,868</u>
Expenses:		
Water & Wastewater operations	3,499,324	2,603,224
General government	1,400,004	1,520,193
Fire	785,195	997,997
Interest and fiscal charges	397,449	317,508
Total Expenses	<u>6,081,972</u>	<u>5,438,922</u>
Increase in net assets (FY10 restated)	<u>\$ 1,991,485</u>	<u>\$ 1,331,946</u>

**Financial analysis of the District's funds**

Governmental Funds - the main focus of the District's governmental funds is to provide information on the flow of monies to and from the funds, and to note the unassigned fund balance, which is a good indicator of resources available for spending in the near term. The

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
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information derived from these funds is highly useful in assessing the District's financial requirements. The unassigned fund balance may serve as a useful measure of the government's net resources available for use at the fiscal year-end.

At the end of the fiscal year, the District's governmental funds reported combined ending fund balances of \$3,143,822, of which 70%, or \$2,206,963, is unassigned and available to the District for future spending. Additional fund balances of \$107,847 are assigned to pay debt service.

**General Fund budgetary highlights**

**Revenue: Revenues were \$1,072,966 more than budgeted**

- Water and wastewater charges were \$973,696 (22%) more than budgeted. The budget was based on a normal year, but the District experienced dry, hot weather increasing the use of water.

**Expenses: Expenses were \$396,693 less than budgeted**

- Water operations were \$179,979 more than budgeted due to a higher water use during above average summer heat and dry weather.
- The Fire Department had a \$436,517 positive budget variance (see page 35) for 2011 expenditures before transfers and capital outlays. After these items are considered, the positive variance was \$50,517.

**Debt Service Fund:**

- Actual debt service fund revenue was \$12,921 more than budgeted due to the payment of delinquent taxes. The debt service expenses were \$1,040 less than budgeted.
- The debt service fund reserves decreased from \$272,132 to \$107,847.

**Overall:**

- Governmental type funds revenue totaled \$8,080,851 while expenditures totaled \$9,927,933.
- Total governmental type fund balances decreased from \$4,990,903 to \$3,143,821; a decrease of \$1,847,082 or 37%. The decrease was expected due to the Capital Projects Fund's use of \$2 million of prior year bond proceeds for fiscal year 2011 capital outlays.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Capital Asset and Debt Administration**

The District's investment in capital assets for its governmental activities as of September 30, 2011 amounted to \$16,742,462, net of accumulated depreciation. This represents a broad range of capital assets including, but not limited to land, buildings, improvements, machinery and equipment, vehicles, and water, wastewater treatment, and wastewater collection systems.

Capital assets increased approximately 17% during 2011 primarily due to the completion of the new fire department facility. The Capital Projects Fund expenditure for this facility in 2011 was approximately \$2.5 million.

A management review of annual depreciation for capital assets was completed during the fiscal year and identified approximately \$665,000 of depreciation that had over accumulated through the end of fiscal year 2010. Beginning fiscal year 2011 accumulated depreciation and net assets have been adjusted accordingly. Additional information about capital assets may be found in Note 5 in the notes to financial statements.

**Debt administration**

Long-Term Debt – at the end of the current fiscal year the consolidated District had \$7,789,214 of general obligation bonds, contractual obligation bonds, notes payable, capital lease obligations, and accrued compensated absences, a decrease of 14% from the previous fiscal year. Of this amount, \$7,511,201 is backed by the full faith and credit of the government. The District had no new debt for fiscal year 2011.

**General debt currently outstanding**

Table 3  
 Outstanding Debt at Year-end

	Governmental Activities 2011	Governmental Activities 2010
General obligation bonds	\$ 7,162,142	\$ 8,280,719
Contractual obligations	349,059	554,752
Notes payable	190,209	196,052
Capital lease obligations	9,888	19,774
Compensated absences	77,916	75,777
<b>Total</b>	<b>\$ 7,789,214</b>	<b>\$ 9,127,074</b>



**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
September 30, 2011**

**Economic factors and next year's budgets and rates:**

**General fund fiscal 2012 budgetary highlights**

**Revenue: The District's 2012 operational revenue is budgeted to increase by \$1,349,996.**

- Property tax revenue budget increased by \$103,010 due to a decrease in existing values and a substantial increase in new construction residential values.
- Water and wastewater revenue budget increased by \$993,154 due to an increase in utility rates and new construction in residential homes.
- Utility fees revenue increased \$170,980 due to the reduction in debt service bond payments. \$338,880 of the \$345,000 in Utility fees will be allocated to operations.

**Expenses: The District's 2012 operational expense is budgeted to increase by \$1,228,358.**

- The majority of the increase is related to capital expenses and the four year plan to replace all existing meter heads (\$85,000).
- Bulk water budget is to increase \$310,000 due to the increase in new construction residential homes.

**Overall:**

The District's 2012 operational budget is anticipated to have expenses of \$7,406,912 on revenues of \$7,141,830 resulting in a \$265,082 use of reserves.

**Debt Service:**

- Budgeted 2012 debt service revenues are budgeted to decrease from \$1,498,059 in fiscal 2011 to \$870,300 in fiscal 2012, a decrease of \$627,759, or 41.9%.
- Debt service appropriations will decrease from \$1,498,059 to \$870,300 due to two bond issues being paid off in fiscal year 2011.

The consolidated District's overall budget for revenue increased from \$7,275,586 in fiscal 2011 to \$8,012,130 in fiscal 2012 a 10.12% increase. The overall appropriations increased from \$7,554,975 to \$8,277,212 a 9.56% increase.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**September 30, 2011**

**Requests for information**

This financial report is designed to provide a general overview of the District's consolidated finances for all interested parties. Questions concerning any of the information in this report or requests for additional information should be directed to the Trophy Club Municipal Utility District No. 1, Senior Accountant, 100 Municipal Drive, Trophy Club, Texas 76262.

## **BASIC FINANCIAL STATEMENTS**

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF NET ASSETS**  
**SEPTEMBER 30, 2011**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 3,514,926
Receivables	
Accounts receivable, net	783,977
Taxes	27,760
Other	253,400
Due from other governments	33,833
Prepays	7,755
Deferred charges	160,670
Non-depreciable capital assets:	
Land	248,093
Construction in progress	281,899
Non-depreciable capital assets:	
Buildings and other improvements	3,813,236
Machinery, vehicles, and other equipment	3,082,168
Water system	16,385,424
Organization costs	2,331,300
Accumulated depreciation	(9,399,658)
<b>TOTAL ASSETS</b>	<b>\$ 21,524,784</b>
<b>LIABILITIES</b>	
Accounts payable	\$ 1,137,121
Accrued liabilities	24,438
Accrued interest payable	28,237
Due to other governments	96,564
Customer deposits	187,087
Noncurrent liabilities:	
Debt due within one year	938,311
Debt due in more than one year	6,850,903
<b>TOTAL LIABILITIES</b>	<b>9,262,662</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,031,162
Restricted for debt service	107,847
Unrestricted	3,123,113
<b>TOTAL NET ASSETS</b>	<b>\$ 12,262,122</b>

The notes to financial the statements are an integral part of this statement.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED SEPTEMBER 30, 2011**

Governmental Activities					Net (Expenses) Revenue and Changes in Net Assets
Program Activities	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
General government	\$ 319,418	\$ 484,770	\$ -	\$ -	\$ 165,352
Water operations	2,495,780	3,534,489	-	-	1,038,709
Wastewater operations	646,419	1,794,839	-	-	1,148,420
Wastewater collection system	357,125	-	-	-	(357,125)
Utility billing	207,307	-	-	-	(207,307)
Directors	14,356	-	-	-	(14,356)
Manager's office	537,597	-	-	-	(537,597)
Finance and H.R.	120,227	-	-	-	(120,227)
Facilities management	77,493	-	-	-	(77,493)
Information systems	123,605	-	-	-	(123,605)
Fire	785,195	-	11,330	78,000	(695,865)
Interest on long term debt	397,449	-	-	-	(397,449)
Total governmental activities	<u>\$ 6,081,972</u>	<u>\$ 5,814,098</u>	<u>\$ 11,330</u>	<u>\$ 78,000</u>	<u>\$ (178,544)</u>
General Revenues:					
					2,081,548
					7,573
					80,908
					<u>2,170,029</u>
				Change in net assets	1,991,485
				Net Assets - beginning of year, as restated	<u>10,270,637</u>
				Net Assets - end of year	\$ 12,262,122

The notes to the financial statements are an integral part of this statement.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

**ASSETS**

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 3,357,805	\$ 107,847	\$ 49,274	\$ 3,514,926
Receivables:				
Accounts receivables, net	783,977	-	-	783,977
Taxes	14,170	13,591	-	27,760
Other receivables	253,400	-	-	253,400
Due from other governments	33,833	-	-	33,833
Due from other funds	199	-	-	199
Prepays	7,755	-	-	7,755
<b>TOTAL ASSETS</b>	<u>\$ 4,451,139</u>	<u>\$ 121,438</u>	<u>\$ 49,274</u>	<u>\$ 4,621,851</u>

**LIABILITIES AND FUND BALANCES**

<b>Liabilities</b>				
Accounts payable	\$ 785,580	\$ -	\$ 351,541	\$ 1,137,121
Accrued liabilities	24,438	-	-	24,438
Customer deposits	187,087	-	-	187,087
Due to other governments	96,564	-	-	96,564
Due to other funds	-	-	199	199
Deferred revenue	19,029	13,591	-	32,620
<b>Total liabilities</b>	<u>1,112,698</u>	<u>13,591</u>	<u>351,740</u>	<u>1,478,029</u>
<b>Fund Balances</b>				
Non-spendable prepaids	7,755	-	-	7,755
Assigned - Budgetary deficits	265,082	-	-	265,082
Assigned - Other	556,175	107,847	-	664,022
Unassigned	2,509,429	-	(302,466)	2,206,963
<b>Total fund balances</b>	<u>3,338,441</u>	<u>107,847</u>	<u>(302,466)</u>	<u>3,143,822</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 4,451,139</u>	<u>\$ 121,438</u>	<u>\$ 49,274</u>	<u>\$ 4,621,851</u>

The notes to financial statements are an integral part of this statement.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2011**

Total fund balances - governmental funds	\$ 3,143,822
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	16,742,462
Costs associated with the issuance of long-term debt are expensed when incurred in governmental funds. These costs are capitalized and amortized over the life of the debt in the government wide financial statements.	160,670
Revenue reported as deferred revenue in the governmental funds balance sheet is recognized as revenue in the government wide statement financial statements.	32,621
Interest payable on long term debt does not require current financial resources; therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(28,237)
Accrued compensated absences does not require the use of current financial resources; therefore accrued vacation is not reported as a liability in the governmental funds balance sheet.	(77,916)
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(7,711,300)</u>
Net assets of governmental activities	<u>\$ 12,262,122</u>

The notes to the financial statements are an integral part of this statement.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2011**

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>				
Water and wastewater charges	\$ 5,323,244	\$ -	\$ -	\$ 5,323,244
Taxes	1,311,296	777,648	-	2,088,945
Utility fees	165,600	246,100	-	411,700
Intergovernmental revenues	89,330	-	-	89,330
Miscellaneous	80,906	-	-	80,906
Oversize meter reimbursements	70,594	-	-	70,594
Inspection and tap fees	8,560	-	-	8,560
Investment income	5,534	985	1,054	7,573
<b>Total revenues</b>	<b>7,055,065</b>	<b>1,024,734</b>	<b>1,054</b>	<b>8,080,852</b>
<b>Expenditures</b>				
<b>Current:</b>				
Water operations	2,271,490	-	-	2,271,490
Fire	770,123	-	-	770,123
Wastewater operations	598,465	-	-	598,465
Manager's office	537,597	-	-	537,597
Wastewater collection system	277,775	-	-	277,775
Utility billing	207,307	-	-	207,307
Information systems	123,605	-	-	123,605
Finance	119,359	-	-	119,359
General government	85,092	-	-	85,092
Facilities management	77,493	-	-	77,493
Directors	14,356	-	-	14,356
Human resources	868	-	-	868
Capital Outlay	515,884	-	2,591,255	3,107,139
<b>Debt Service</b>				
Principal	221,422	1,115,000	-	1,336,422
Interest and fiscal charges	18,823	379,559	-	398,382
Bond issue costs	-	2,460	-	2,460
<b>Total expenditures</b>	<b>5,839,660</b>	<b>1,497,019</b>	<b>2,591,255</b>	<b>9,927,933</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>1,215,405</b>	<b>(472,285)</b>	<b>(2,590,201)</b>	<b>(1,847,081)</b>
<b>Other financing sources (uses)</b>				
Transfers in	-	308,000	581,878	889,878
Transfers out	(889,878)	-	-	(889,878)
<b>Total other financing sources (uses)</b>	<b>(889,878)</b>	<b>308,000</b>	<b>581,878</b>	<b>(0)</b>
<b>Net change in fund balance</b>	<b>325,527</b>	<b>(164,285)</b>	<b>(2,008,323)</b>	<b>(1,847,081)</b>
<b>Fund Balances - beginning of year</b>	<b>3,012,914</b>	<b>272,132</b>	<b>1,705,857</b>	<b>4,990,903</b>
<b>Fund Balances - end of year</b>	<b>\$ 3,338,441</b>	<b>\$ 107,847</b>	<b>\$ (302,466)</b>	<b>\$ 3,143,822</b>

The notes to the financial statements are an integral part of this statement.



**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1  
RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED SEPTEMBER 30, 2011**

Net change in fund balances - total governmental funds \$ (1,847,081)

*Amounts reported for governmental activities in the statement of activities  
are different because:*

Depreciation expense on capital assets reported in the statement of activities does not require the use of current financial resources, therefore, depreciation expense is not reported as expenditures in the governmental funds. (612,059)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 3,107,139

Debt principal payments reduces long-term liabilities in the statement of net assets, but it is recorded as an expenditure in the governmental funds 1,336,422

Current year changes in the long term liability for compensated absences do not require the use of current financial resources; therefore they are not reported as expenditures in the governmental funds. (2,139)

Governmental funds report the effects of issuance costs, premiums, and deferred losses on refunding when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. (3,577)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net assets. 9,388

Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. 3,392

Change in net assets of governmental activities \$ 1,991,485

The notes to the financial statements are an integral part of this statement.

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

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

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

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

**B. Financial Reporting Entity**

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

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

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

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Government-Wide and Fund Financial Statements**

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

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

**Fund Financial Statements**

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

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

**General Fund**

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

**Debt Service Fund**

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

**Capital Projects Fund**

The Capital Projects Fund is used to account for funds received and expended for the acquisition and construction of infrastructure and other capital assets.

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**D. Measurement Focus and Basis of Accounting**

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

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

**E. Cash and Investments**

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

The District's investment policy requires that all monies be deposited with the authorized District depository or in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**E. Cash and Investments - Continued**

Insurance Corporation, or its successor; or, (B) secured by obligations that are described by (1) – (4); or, (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with third party selected or approved by the District, and placed through a primary government securities dealer.

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

**F. Capital Assets**

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

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

Buildings	50 Years
Improvements other than buildings	15 - 30 Years
Machinery and equipment	5 - 15 Years
Vehicles	6 - 12 Years
Water and wastewater systems	30 - 65 Years

**G. Accumulated Vacation, Compensated Time and Sick Leave**

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

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**H. Organizational Costs**

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

**I. Net Assets**

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

**J. Estimates**

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

**K. Fund Balances**

The Governmental Accounting Standards Board (GASB) has issued *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes in the fund financial statements for governmental type funds. It does not apply for the government-wide financial statements.

GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

**Nonspendable** - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned)

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

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**K. Fund Balances - Continued**

*Restricted* - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

*Committed* - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors (the district's highest level of decision-making authority),

*Assigned* - fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

*Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications, and other fund's that have total negative fund balances.

**NOTE 2. CASH AND INVESTMENTS**

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

At September 30, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$619,096 and the bank balance was \$848,446. The District's cash deposits at September 30, 2011, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

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

**NOTE 2. CASH AND INVESTMENTS – CONTINUED**

Statutes and the District's investment policy authorized the District to invest in the following investments as summarized below:

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

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

Cash and investments as of September 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets

Primary Government:

Cash and cash equivalents	\$ 3,514,926
Total cash and investments	<u>\$ 3,514,926</u>

Cash and investments as of September 30, 2011 consist of the following:

Deposits with financial institutions	\$ 619,096
Investments	<u>2,895,830</u>
Total cash and investments	<u>\$ 3,514,926</u>

The District's cash and investments balance includes \$187,087 which is restricted for customer deposits.