

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 \$840,519 (2012)

and the projected average annual debt service requirement will be \$463,404 (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 \$0.08893 per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected maximum annual debt service requirement of \$840,519 and a tax rate of \$0.04903 per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected average annual debt service requirement of \$463,404. 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 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 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 toward Marshall Creek, which runs through the District. The city limits of Roanoke 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 <sup>(a)</sup></u>
138	3,172	3,310	72	3,382	178

<sup>(a)</sup> 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>
<b>Total Investments</b>	<b><u>\$4,000,693</u></b>

### 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, or other material events affecting 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](http://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 "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 \$2,470,257.70 (representing the par amount of the Bonds of \$2,355,000.00, plus an original issue premium of \$136,075.20, less an Underwriter's discount of \$20,817.50), plus accrued interest on the Bonds from the Dated Date 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 was 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

James Moss

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

Kevin Carr

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

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**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 (September 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 <sup>(a)</sup>	4.95%
	2020	235,000	235,000 <sup>(a)</sup>	4.95%
	2021	245,000	245,000 <sup>(b)</sup>	5.00%
	2022	260,000	260,000 <sup>(b)</sup>	5.00%
	2023	<u>275,000</u>	<u>275,000</u>	5.00%
		\$ 2,355,000	\$ 2,355,000	

**Total Refunded Bonds      \$ 2,355,000**

<sup>(a)</sup> Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2020.

<sup>(b)</sup> Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2022.

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## **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>		\$ 997,817,696 <sup>(b)</sup>
Less: Taxable Value of Accounts Incomplete/Under Review		\$ (43,172,221)
2011 Certified Net Taxable ARB Approved Assessed Valuation		\$ 954,645,475

<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
Total General Obligation Debt Principal Outstanding	\$	4,765,000
<b>Current Issue General Obligation Debt Principal</b>		
Unlimited Tax Refunding Bonds, Series 2012 (the "Bonds")	\$	2,355,000
Total General Obligation Debt Principal Outstanding (Following the Issuance of the Bonds)	\$	7,120,000
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.



**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><b>\$ 1,617,093</b></u>

## GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

		Less:	The Bonds				
Fiscal Year	Current Total Debt Service	Refunded Bonds					Combined
Sept 30	Outstanding <sup>(a)</sup>	Debt Service	Principal	Interest	Total	Debt Service	
2012	\$ 866,300	\$ 56,156	\$ -	\$ 30,375	\$ 30,375	\$ 840,519	
2013	865,595	277,313	185,000	60,750	245,750	834,033	
2014	659,123	275,300	190,000	57,050	247,050	630,873	
2015	657,938	277,905	195,000	53,250	248,250	628,283	
2016	660,938	279,895	200,000	49,350	249,350	630,393	
2017	667,868	281,250	205,000	44,350	249,350	635,968	
2018	668,468	281,850	210,000	39,225	249,225	635,843	
2019	672,838	286,770	225,000	33,975	258,975	645,043	
2020	670,738	285,633	225,000	28,350	253,350	638,455	
2021	672,768	284,000	230,000	21,600	251,600	640,368	
2022	678,533	286,750	240,000	14,700	254,700	646,483	
2023	676,463	288,750	250,000	7,500	257,500	645,213	
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>\$ 2,355,000</u>	<u>\$ 440,475</u>	<u>\$ 2,795,475</u>	<u>\$ 9,268,084</u>	

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

## 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)	\$ 840,519
Indicated Maximum Interest and Sinking Fund Tax Rate at 99% collections	\$ 0.08893

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	840,519
Estimated Surplus at Fiscal Year Ending 9-30-12 <sup>(a)</sup>	\$ 109,381

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

**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	\$ -	\$ 565,000	\$ 6,555,000	7.94%
2013	420,000	185,000	605,000	5,950,000	16.43%
2014	230,000	190,000	420,000	5,530,000	22.33%
2015	235,000	195,000	430,000	5,100,000	28.37%
2016	245,000	200,000	445,000	4,655,000	34.62%
2017	260,000	205,000	465,000	4,190,000	41.15%
2018	270,000	210,000	480,000	3,710,000	47.89%
2019	280,000	225,000	505,000	3,205,000	54.99%
2020	290,000	225,000	515,000	2,690,000	62.22%
2021	305,000	230,000	535,000	2,155,000	69.73%
2022	320,000	240,000	560,000	1,595,000	77.60%
2023	330,000	250,000	580,000	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 PPFCO principal outstanding (see Table 3, page A-2).

**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>	<u>\$ 3,446,288</u>	<u>\$ 3,759,035</u>

**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.

# CLASSIFICATION OF ASSESSED VALUATION

TABLE 10

Category	2011	% of Total	2010	% of Total	2009	% of Total	2008	% of Total	2007	% of Total
<b>Land <sup>(a)</sup></b>										
Land - Homestead	\$ 193,352,075	18.57%	\$ 189,642,427	18.32%	\$ 189,045,883	17.48%	\$ 186,574,000	18.75%	\$ 213,640,000	22.56%
Land - Non Homestead	236,144,259	22.68%	248,891,821	24.04%	271,608,898	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%
<b>Improvements <sup>(a)</sup></b>										
Improvements - Homestead	497,180,522	47.75%	498,665,743	48.16%	505,293,510	46.96%	737,273,000	74.10%	638,560,000	67.43%
Improvements - Non Homestead	19,001,251	1.82%	19,724,323	1.90%	26,769,054	2.49%	-	0.00%	-	0.00%
<b>Personal Property <sup>(a)</sup></b>	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>Mineral Property</b>	444,407	0.04%	1,263,858	0.12%	10,174,220	0.95%	-	0.00%	-	0.00%
<b>Total Appraised Value</b>	<b>\$ 1,041,294,157</b>	<b>100.00%</b>	<b>\$ 1,035,448,379</b>	<b>100.00%</b>	<b>\$ 1,076,047,808</b>	<b>100.00%</b>	<b>\$ 994,938,000</b>	<b>100.00%</b>	<b>\$ 947,023,000</b>	<b>100.00%</b>
<b>Less Exemptions:</b>										
<b>Exemptions <sup>(a)</sup></b>										
Optional Over-65	13,436,103		12,886,387		11,972,353		34,027,000		34,405,000	
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		-		-	
Freeport	-		-		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>	<b>\$ 43,476,461</b>		<b>\$ 42,736,855</b>		<b>\$ 43,013,717</b>		<b>\$ 34,027,000</b>		<b>\$ 34,405,000</b>	
<b>Certified Net Taxable Assessed Valuation</b>	<b>\$ 997,817,696</b>		<b>\$ 992,711,524</b>		<b>\$ 1,033,034,091</b>		<b>\$ 960,911,000</b>		<b>\$ 912,618,000</b>	
<b>Less: Taxable Value of Accounts Incomplete/Under Review</b>	<b>\$ (43,172,221)</b>		<b>\$ (14,201,850)</b>		<b>\$ (17,256,702)</b>					
<b>Certified Net Taxable ARB Approved Assessed Valuation</b>	<b>\$ 954,645,475</b>		<b>\$ 978,509,674</b>		<b>\$ 1,015,777,389</b>					

<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) 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**

<u>Name</u>	<u>Type of Property</u>	<u>2011 Net Taxable</u>	<u>% of Total 2011</u>
		<u>Assessed Valuation</u>	<u>Assessed Valuation</u>
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%
Armoro Trophy Club LLC	Real Estate Development	5,665,875	0.59%
<b>Total</b>		<b>\$ 234,602,553</b>	<b>24.57%</b> <sup>(b)</sup>

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 year 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**

<u>Tax Year</u>	<u>Net Taxable</u>	<u>Tax Rate</u>	<u>Adjusted</u>	<u>% Collections</u>		<u>Fiscal Year Ended</u>
	<u>Assessed Valuation</u>		<u>Tax Levy</u>	<u>Current</u>	<u>Total</u>	
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**

	<u>2011-12</u>	<u>2010-11</u>	<u>2009-10</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2006-07</u>
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.

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 I S D	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**

	<b>Fiscal Year Ended September 30</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<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**

	<b>Fiscal Year Ended September 30</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<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**



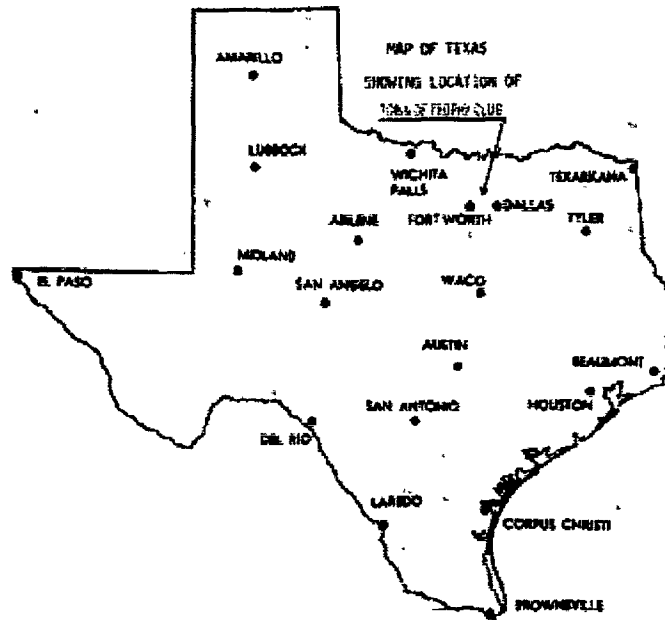
**GENERAL INFORMATION REGARDING THE TOWN OF TROPHY CLUB  
AND DENTON COUNTY, TEXAS**

**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, 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).

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 \$2,355,000**

**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.

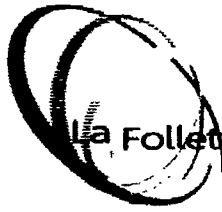
Respectfully,

**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.)





LaFollett and Company PLLC  
Certified Public Accountants

## 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.