

25. Recognizing the foregoing, the District's Board of Directors engaged The Wallace Group, Inc., a professional engineering consultant, to prepare an engineering report to identify improvements to the Wastewater Plant that are necessary for the District to maintain regulatory compliance and to meet the demands of its increasing population. The engineering report was completed in April 2013 and is available to the public as follows:

Part 1: <http://www.tcmud.org/wp-content/uploads/2013/04/Preliminary-Engineering-Report-The-Wallace-Group-Part-1.pdf> and

Part 2: <http://www.tcmud.org/wp-content/uploads/2013/04/Preliminary-Engineering-Report-The-Wallace-Group-Part-2.pdf>

(collectively, the "Engineering Report"). The discussion herein of the required improvements to the Wastewater Plant is not meant to be exhaustive and, therefore, the District incorporates by reference the Engineering Report as if fully set forth herein and requests that the Court take judicial notice of the same.

26. As indicated in the Engineering Report, the Wastewater Plant has already exceeded current Permit limitations on multiple occasions. Since the Engineering Report was prepared, the number of events in which the District has exceeded the maximum daily limitations set forth in the Permit have continued to increase. The District previously submitted a compliance schedule to the TCEQ for purposes of achieving compliance with the Permit, and that schedule provides for construction of the Necessary Improvements. As the District's service population continues to increase and/or hydraulic flows to the plant increase, the ability of the District to maintain compliance with its Permit will be further jeopardized. In sum, unless the Necessary Improvements are completed promptly, the District may be forced to impose a

moratorium on new service connections or face significant TCEQ enforcement actions for Permit violations.

(ii) The Necessary Improvements Are Required for the District to Service Its Increasing Population.

27. The Necessary Improvements are critical for the District to continue to support the health, safety, and welfare of its increasing population by providing it adequate services. Indeed, the TCEQ's more stringent Permit limitations have significantly reduced the Wastewater Plant's average daily flow capacity. This, together with the District's increasing population, as forecasted in the Engineering Report, has resulted in the plant approaching 100% of its wastewater treatment capacity. The wastewater effluent has in fact recently exceeded the maximum daily Permit limitations set forth in the Permit on multiple occasions. For example, the District reported a violation for ammonia (NH₃-N) on its Discharge Monitoring Report for May 2014; the Permit limit for the monthly average was 1.0 mg/L, but the Wastewater Plant's monthly average was 1.78 mg/L.

(iii) The Necessary Improvements Are Required for the District to Allow Necessary Operational Redundancy.

28. The Necessary Improvements would also provide operational redundancy of the Wastewater Plant as and when needed. For example, if one of the facility's aeration basins needs to be taken down for necessary maintenance or repairs, the hydraulic and organic capacities of the existing treatment plant are effectively cut in half. In other words, to the extent the District temporarily takes offline a basin for required maintenance, any increase in flow would likely result in the District exceeding its Permit limitations.

29. Additionally, there are hydraulic issues within the existing Wastewater Plant that cause surcharging and short circuiting with the treatment basin. These are not easily corrected

with the existing plant processes and configuration. The end result of these problems is a further reduction in the treatment time and effective plant capacity.

30. In sum, although the District has implemented interim improvements to achieve interim compliance with its Permit limitations, the existing Wastewater Plant is reaching its capacity and the District will not be able to maintain compliance with its Permit as wastewater flows increase. The District's professional engineering consultants have evaluated the existing facility in detail, have reviewed and considered alternative solutions, and have identified the most cost effective project to maintain regulatory compliance and to serve future demands. Notably, TCEQ staff members have participated in the evaluations and concur with the District's conclusion.

D. The TCEQ's Approval of the Necessary Improvements

31. In furtherance of its desire to finance the Necessary Improvements through the Proposed Bonds, the District passed Resolution No. 2013-0827A (the "Resolution").²¹ On September 24, 2013, pursuant to Sections 5.122 and 49.181 of the Texas Water Code and the Resolution,²² the District filed an application with the TCEQ for expedited approval of a proposed engineering project and the issuance of up to \$15,000,000 in bonds (the "District's TCEQ Application"). The District's TCEQ Application requested authorization to issue up to \$5,769,217 in unlimited tax and/or combination unlimited tax and revenue bonds, and up to \$9,230,783 in revenue bonds, for the purposes of financing the Necessary Improvements.²³

²¹ A true and correct copy of the Resolution is attached hereto as Exhibit I.

²² The Resolution provides that a certified copy of the Resolution "shall constitute an application and request on behalf of the District to the [TCEQ] pursuant to Section 49.181, Texas Water Code, for approval of the Project described [therein] and the bonds described [therein]."

²³ A true and correct copy of the District's TCEQ Application is attached hereto as Exhibit J, except Exhibit J does not include the voluminous Engineering Report that was part of the application because the report is readily available to the public (as described above in footnote 1).

32. On January 31, 2014, the TCEQ issued a Technical Memorandum ("TCEQ Memorandum") regarding the District's TCEQ Application stating that (i) the District's TCEQ Application supported the issuance of \$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds, (ii) a Water Supply Division financial analyst reviewed the financial information submitted in the District's TCEQ Application and concluded that operating revenues appeared to be sufficient for operating expenses and the District's current and proposed revenue debt, and (iii) based on the review of the Engineering Report and supporting documents, the bond issuance is considered feasible and meets the economic feasibility criteria established by 30 Tex. Admin. Code § 293.59.

33. On February 6, 2014, the TCEQ entered AN ORDER APPROVING (1) AN ENGINEERING PROJECT, (2) THE ISSUANCE OF \$5,765,000 IN UNLIMITED TAX BONDS, AND (3) THE ISSUANCE OF \$9,230,000 IN REVENUE BONDS FOR [THE DISTRICT] (the "TCEQ Order"). Among other things, the TCEQ Order (i) attaches and adopts the TCEQ Memorandum as written, (ii) pursuant to Section 49.181 of the Texas Water Code, approves the Necessary Improvements together with the issuance of \$14,995,000 in bonds to finance the same (\$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds) at a maximum net effective interest rate of 6.23%, and (iii) states that the sale of the bonds in the TCEQ Order shall be valid for one year from the date of the TCEQ Order, unless extended by written authorization of the TCEQ staff.²⁴

E. Opposition to the TCEQ's Approval of the Necessary Improvements

34. As referenced above in paragraph 18, in 1982, the property owner of the area of Westlake now known as Solana petitioned to annex the area into the District's corporate

²⁴ A true and correct copy of the TCEQ Order is attached hereto as Exhibit C.

boundaries in order to obtain water, sewer, and fire protection services that Westlake did not offer at that time. Westlake consented to the annexation and agreed that the District would provide such services to the Solana lands. In response, the District annexed the land and entered into one or more contracts for the provision of water and wastewater services to the annexed area. To this day, the contracts are still in full force and effect and the District owns and operates water and sewer infrastructure in the Solana area and provides active water and wastewater services to customers living in or having property in Solana.

35. Long after the District's annexation of Solana, Maguire Partners acquired an interest in certain of the annexed land. Recently, Westlake and Maguire Partners have engaged in a campaign to convince the District to release the annexed land from the District. On August 19, 2013, Westlake sent the District an unsolicited letter offering to pay \$1.8 million over a five year period in exchange for the District (i) releasing from its corporate boundaries all lands that are located within the Solana area of Westlake, including the lands owned by Maguire Partners, (ii) transferring all District assets and infrastructure in Solana to Westlake, and (iii) foregoing all future taxes and revenues that would otherwise be collected from the area (the "Offer"). On August 29, 2013, the District responded via a letter informing Westlake that the District had provided the Offer to its financial advisors.

36. On September 24, 2013, the District filed the District's TCEQ Application. The next day, Westlake sent the District a letter expressing its concern regarding the District's approval of the issuance of debt to fund the Necessary Improvements. Specifically, the letter stated that Westlake was "extremely concerned about the impact of additional debt" on the Offer and that the Offer was "based on the [District's] current debt obligations[.]"

37. On October 28, 2013, Maguire Partners filed a Petition for Exclusion of Lands from the District (the “Petition for Exclusion”). Notably, the land identified therein was the same as certain of the land identified in the Offer. On October 31, 2013, the District denied the Petition for Exclusion explaining that (i) because the District has outstanding bonds payable from taxes, Chapter 49 of the Texas Water Code does not authorize the exclusion of the land from the District’s corporate (taxing) boundaries, and (ii) the Texas Constitution does not permit the District to exempt any individual property from taxation.

38. After the District’s rejection of the Petition for Exclusion, multiple letters were exchanged between Westlake and the District, whereby it became clear that the parties were not going to reach an agreement.²⁵

39. On March 7, 2014, in response to the TCEQ Order, Maguire Partners and Westlake each filed with the TCEQ a Motion to Overturn the TCEQ Order (collectively, the “Motions to Overturn”). After considering the Motions to Overturn and subsequent Replies that Maguire Partners and Westlake each filed, the TCEQ elected to take no action with respect to its prior order approving the Proposed Bonds and the Necessary Improvements. As a result, the Motions to Overturn were overruled by operation of law on May 2, 2014.²⁶

40. On March 7, 2014, Maguire Partners also filed a lawsuit seeking to overturn the TCEQ’s Order, styled *Maguire Partners — Solana Land, L.P. v. Texas Commission on Environmental Quality and Richard Hyde, in his official capacity as Executive Director*, Cause No. D-1-GN-14-000716, which is currently pending in the 126th Judicial District Court of Travis County, Texas (the “First State Court Action”). On May 30, 2014, Maguire Partners filed another

²⁵ The correspondence between the District, Westlake, and Maguire Partners discussed herein is available to the public at <http://www.tcmud.org/public-informatio/news/> (last visited June 19, 2014).

²⁶ A true and correct copy of the May 5, 2014 letter from the TCEQ confirming that the Motions to Overturn were denied by operation of law is attached hereto as Exhibit K.

lawsuit challenging the denial of its Motion to Overturn and seeking to overturn the TCEQ's Order; styled *Maguire Partners — Solana Land, L.P. v. Texas Commission on Environmental Quality and Richard Hyde, in his official capacity as Executive Director*, Cause No. D-1-GN-14-001623, which is currently pending in the 53rd Judicial District of Travis County, Texas (the "Second State Court Action").

41. As explained in the District's Response to the Motions to Overturn, the TCEQ Executive Director's Response to the Motions to Overturn, and the Office of Public Interest Counsel's Response to the Motions to Overturn, Maguire Partners' and Westlake's challenges to the Proposed Bonds and Necessary Improvements are without merit.²⁷ Upon information and belief, Maguire Partners and Westlake have opposed the Proposed Bonds and Necessary Improvements for the sole purpose of furthering their desire to have the District release Solana from its corporate boundaries — an act that the District is prohibited from doing under applicable law, and is unwilling to do to the detriment of its other taxpayers and bondholders.

VI.

AUTHORITY OF THE DISTRICT TO ENTER INTO CONTRACTS, ISSUE THE PROPOSED BONDS, AND CONSTRUCT THE NECESSARY IMPROVEMENTS

A. The District is Authorized to Contract for the Necessary Improvements

42. Section 54.201 of the Texas Water Code authorizes the District to own, operate, maintain, repair, and/or improve the Wastewater Plant. It provides, in pertinent part:

- (a) A district shall have the functions, powers, authority, rights, and duties which will permit accomplishment of the purposes for which it was created.
- (b) A district is authorized to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend inside and outside its boundaries any and all works, improvements, facilities, plants, equipment, and appliances necessary to

²⁷ The responses to the Motions to Overturn are available to the public by going to <http://www14.tceq.texas.gov/epic/cFiling/index.cfm?fuseaction=search.home> (last visited June 19, 2014), and inserting the following "TCEQ Docket Number" where indicated: 2014-0347-DIS.

accomplish the purposes of the district authorized by the constitution, this code, or other law, including all works, improvements, facilities, plants, equipment, and appliances incident, helpful, or necessary to: . . .

- (1) supply water for municipal uses, domestic uses, power, and commercial purposes and all other beneficial uses or controls; [and]
- (2) collect, transport, process, dispose of, and control all domestic, industrial, or communal wastes whether in fluid, solid, or composite state; . . .

Tex. Water Code Ann. § 54.201; *see also id.* § 54.012.

43. Section 49.213 of the Texas Water Code authorizes the District to enter into a contract with a public or private entity to construct improvements to the Wastewater Plant, i.e., the Necessary Improvements. It provides, in pertinent part:

- (a) A district may contract with a person or any public or private entity for the joint construction, financing, ownership, and operation of any works, improvements, facilities, plants, equipment, and appliances necessary to accomplish any purpose or function permitted by a district, or a district may purchase an interest in any project used for any purpose or function permitted by a district.
- (b) A district may enter into contracts with any person or any public or private entity in the performance of any purpose or function permitted by a district.
- (c) A district may enter into contracts, which may be of unlimited duration, with persons or any public or private entities on the terms and conditions the board may consider desirable, fair, and advantageous for: . . .
 - (2) the collection, transportation, treatment; and disposal of its domestic, industrial, and communal wastes or the collection, transportation, treatment, and disposal of domestic, industrial, and communal wastes of other persons; . . .
 - (4) the continuing and orderly development of the land and property within the district through the purchase, construction, or installation of works, improvements, facilities, plants, equipment, and appliances that the district may otherwise be empowered and authorized to do or perform so that, to the greatest extent reasonably possible, considering sound engineering and economic practices, all of the land and property may be placed in a position to ultimately receive the services of the works, improvements, plants, facilities, equipment, and appliances;

- (5) the maintenance and operation of any works, improvements, facilities, plants, equipment, and appliances of the district or of another person or public or private entity;
- (6) the collection, treatment, and disposal of municipal solid wastes; and
- (7) the exercise of any other rights, powers, and duties granted to a district.

Tex. Water Code Ann. § 49.213.

44. By passing the Resolution, the District elected to exercise its right to complete the Necessary Improvements, and to later contract with a third party to complete such improvements. Moreover, in furtherance of the same, the District filed the District's TCEQ Application, resulting in the TCEQ Order that approved the Necessary Improvements and issuance of the Proposed Bonds.

45. Additionally, the TCEQ Order discusses certain of the District's responsibilities in executing a contract for the Necessary Improvements imposed by Sections 49.181 (set forth below), 49.182,²⁸ and 49.277(b)²⁹ of the Texas Water Code. Indeed, the TCEQ Order states, in pertinent part, that the District shall:

- (1) furnish the Utilities and District's Section copies of all bond issue project construction documentation outlined under 30 Tex. Admin. Code §

²⁸ Tex. Water Code Ann. § 49.182 (“(a) During construction of projects and improvements approved by the commission under this subchapter, no substantial alterations may be made in the plans and specifications without the approval of the commission in accordance with commission rules. (b) The executive director may inspect the improvements at any time during construction to determine if the project is being constructed in accordance with the plans and specifications approved by the commission. (c) If the executive director finds that the project is not being constructed in accordance with the approved plans and specifications, the executive director shall give written notice immediately by certified mail to the district's manager and to each board member. (d) If within 10 days after the notice is mailed the board does not take steps to ensure that the project is being constructed in accordance with the approved plans and specifications, the executive director shall give written notice of this fact to the attorney general. (e) After receiving this notice, the attorney general may bring an action for injunctive relief or *quo warranto* proceedings against the directors. Venue for either suit is exclusively in a district court in Travis County.”).

²⁹ *Id.* § 49.277(b) (“During the progress of the construction work, the district engineer or other designated person shall submit to the board detailed written reports showing whether or not the contractor is complying with the contract, and when the work is completed the district engineer shall submit to the board a final detailed report including as-built plans of the facilities showing whether or not the contractor has fully complied with the contract.”).

293.62, including detailed progress reports and as-built plans required by Tex. Water Code § 49.277(b), which have not already been submitted;

- (2) notify the Utilities and District's Section and obtain approval of the TCEQ for any substantial alterations in the engineering project approved herein before making such alterations; and
- (3) ensure, as required by Tex. Water Code § 49.277(b), that all construction financed with the proceeds from the sale of bonds is completed by the construction contractor according to the plans and specifications contracted.

See Exhibit C.³⁰ In sum, the District is authorized to contract with a third party to construct the Necessary Improvements.

B. The District Has Authority to Issue the Proposed Bonds

46. Sections 49.152³¹ and 54.501 of the Texas Water Code authorize the District to issue bonds to finance the Necessary Improvements. Section 54.501 provides:

³⁰ 30 Tex. Admin Code § 293.62 provides:

Every district required to obtain commission approval of its projects relating to the issuance and sale of bonds as indicated in § 293.41 of this title (relating to Approval of Projects and Issuance of Bonds), is required to submit the following construction related reports and/or documents:

- (1) Within 10 days after construction contract execution, the district shall furnish to the appropriate agency field office true copies of the following documents:
 - (A) notice to contractors (advertisement affidavit for bids);
 - (B) addenda to plans and specifications;
 - (C) bid tabulation;
 - (D) engineer's letter recommending award of contract;
 - (E) executed contract and bid proposal documents with bonds; and
 - (F) notice to proceed (submit copy when issued).
- (2) As the construction progresses, provide to the appropriate agency field office:
 - (A) engineer's monthly construction progress reports and monthly pay estimates for contract partial payments within 10 days after payment;
 - (B) copies of proposed change orders;
 - (C) copies of infiltration/exfiltration tests for wastewater lines and test results of water lines prior to final construction inspection;
 - (D) notice of date and time of final inspection at least five days prior to the inspection;
 - (E) engineer's certification of completion for each construction contract within 10 days of the project acceptance; and
 - (F) letter of acceptance by owner within 10 days after project acceptance.
- (3) At the time the district requests approval for funding of the project from the commission or executive director and subsequently thereafter as appropriate, the district shall provide to the executive director copies of the items listed in paragraphs (1) and (2) of this section.

The district may issue its bonds for any purpose authorized by this chapter, Chapter 49, or other applicable laws, including the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving, or extending any district works, improvements, facilities, plants, equipment, and appliances needed to accomplish the purposes set forth in Section 54.012 for which a district shall be created, including works, improvements, facilities, plants, equipment, and appliances needed to provide a waterworks system, sanitary sewer system, storm sewer system, and solid waste disposal system.

Tex. Water Code Ann. § 54.501.

47. Section 49.181 of the Texas Water Code further addresses the District's authority to issue bonds in situations requiring TCEQ approval. Section 49.181 provides, in pertinent part:

- (a) A district may not issue bonds to finance a project for which the commission has adopted rules requiring review and approval unless the commission determines that the project is feasible and issues an order approving the issuance of the bonds. This section does not apply to: . . .
- (b) A district may submit to the commission a written application for investigation of feasibility. An engineer's report describing the project, including the data, profiles, maps, plans, and specifications prepared in connection with the report, must be submitted with the application.
- (c) The executive director shall examine the application and the report and shall inspect the project area. The district shall, on request, supply the executive director with additional data and information necessary for an investigation of the application, the engineer's report, and the project.
- (d) The executive director shall prepare a written report on the project and include suggestions, if any, for changes or improvements in the project. The executive director shall retain a copy of the report and send a copy of the report to both the commission and the district.
- (e) The commission shall consider the application, the engineer's report, the executive director's report, and any other evidence allowed by commission rule to be considered in determining the feasibility of the project.
- (f) The commission shall determine whether the project to be financed by the bonds is feasible and issue an order either approving or disapproving, as appropriate, the

³¹ Tex. Water Code Ann. § 49.152 ("The district may issue bonds, notes, or other obligations to borrow money for any corporate purpose or combination of corporate purposes only in compliance with the methods and procedures provided by this chapter or by other applicable law.").

issuance of the bonds. The commission shall retain a copy of the order and send a copy of the order to the district.

- (g) Notwithstanding any provision of this code to the contrary, the commission may approve the issuance of bonds of a district without the submission of plans and specifications of the improvements to be financed with the bonds. The commission may condition the approval on any terms or conditions considered appropriate by the commission.

48. The District intends to finance the Necessary Improvements through the issuance and delivery of the Proposed Bonds. The Proposed Bonds shall be issued in one or more series in an aggregate principal amount not to exceed \$14,995,000, such amount consisting of the sum of up to \$5,765,000 in unlimited tax bonds and up to \$9,230,000 in revenue bonds at a maximum net effective interest rate of 6.23%.³² The Proposed Bonds shall be issued pursuant to the terms and conditions specified in the bond orders, substantial copies of which are attached hereto as Exhibits A and B, respectively, with such changes and completion of blanks as are reasonably appropriate to accommodate the structure of a particular series of Proposed Bonds as each particular series of Proposed Bonds is priced and sold and in order to obtain the approval of the Texas Attorney General pursuant to Section 1202.003 of the Texas Government Code.

49. Pursuant to Section 49.181 of the Texas Water Code and other applicable law, the District filed the District's TCEQ Application requesting the TCEQ's approval to issue the Proposed Bonds. The TCEQ Order approved the application and authorized the District to issue the Proposed Bonds to finance the Necessary Improvements.

50. Other than the approval of the Texas Attorney General pursuant to Section 1202.003 of the Texas Government Code, no further governmental approvals are required for the District to issue the Proposed Bonds. Pursuant to Section 54.505 of the Texas Water Code, voter

³² *Id.* § 54.502(a) ("A district may issue its bonds in various series or issues.").

approval is not required for the District's issuance of up to \$9,230,000 in revenue bonds for the Necessary Improvements.³³

51. Moreover, with respect to the District's issuance of up to \$5,765,000 in unlimited tax bonds for the Necessary Improvements, the voters within the District have approved the issuance of the previously authorized but unissued tax bonds, so no new election is required to issue those bonds.

52. As discussed above in paragraph 19, in 1990, DC MUD 2 and DC MUD 3 entered into a consolidation agreement and an election was held whereby voters approved the consolidation of the districts into the TC MUD 2.

53. Most recently, as discussed more fully above in paragraph 20, in 2009, an election was held whereby the voters for TC MUD 1 and TC MUD 2 approved the consolidation of the districts in the District, and further specifically authorized (i) each district to assume the other district's outstanding bonds, notes, and obligations and voted but unissued bonds payable in whole or in part from taxation, (ii) the District to provide for the payment of principal of and interest on the outstanding bonds, notes and obligations of the former TC MUD 1 and TC MUD 2, through the levy and collection of a sufficient ad valorem tax upon all taxable property within the District, and (iii) the District to issue for and in the name of the District the voted but unissued bonds of former TC MUD 1 in the amount of \$3,229,217 and of the former TC MUD 2 in the amount of \$4,540,000, being assumed by the District, as may be appropriate under the specific authority and terms and conditions of the propositions submitted at the elections

³³*Id.* § 54.505 ("Bonds payable solely from revenues may be issued by resolution or order of the board without an election, but no bonds, except refunding bonds, payable wholly or partially from ad valorem taxes shall be issued until authorized by a majority vote of the resident electors of the district voting in an election called and held for that purpose. An election is not required to pledge revenues to the payment of bonds."); *see also* Tex. Water Code Ann. § 49.181.

authorizing the same, and to provide for the payment of the principal of and interest on such bonds by the levy and collection of a sufficient tax upon all taxable property within the District.

54. The following table provides a summary of the District's confirmation election dates, bonds authorized, total bonds issued, and bonds authorized but unissued.

Issuance Body	Date of Election	Amount Authorized	Total Amount Issued To Date	Authorized But Unissued
TC MUD 1 ³⁴	10/7/1975	\$12,344,217	\$11,115,000 ³⁵	\$1,229,217
DC MUD 2 ³⁶	4/4/1981	\$6,450,000	\$6,450,000 ³⁷	\$0
DC MUD 3 ³⁸	4/4/1981	\$5,800,000	\$3,760,000 ³⁹	\$2,040,000
DC MUD 3	10/29/1988	\$2,500,000	\$0	\$2,500,000
			Total Authorized But Unissued	\$5,769,217

55. In sum, the District has satisfied all legal prerequisites, other than the Texas Attorney General's approval, to issue the Proposed Bonds.

VII. MOTION/REQUEST FOR CONSOLIDATION

56. As referenced above, in an effort to prevent the District from issuing the Proposed Bonds and completing the Necessary Improvements, Maguire Partners filed the First State Court Action and Second State Court Action seeking to overturn the TCEQ's Order and the denial of its Motion to Overturn. Because the issues in this case and those two (2) actions are substantially related and, in some instances, identical, the same evidence and arguments will ultimately be

³⁴ On the date of the election, TC MUD 1 was known as the Denton County Municipal Utility District No. 1.

³⁵ Issuances were as follows: (i) \$1,530,000 on 1/15/1976, (ii) \$2,035,000 on 7/15/1980, (iii) \$3,200,000 on 3/29/1983, and (iv) \$4,350,000 on 10/17/1990.

³⁶ DC MUD 2 was later consolidated with DC MUD 3 into TC MUD 2.

³⁷ Issuances were as follows: (i) \$1,870,000 on 12/1/1988, (ii) \$3,510,000 on 6/1/2002, and (iii) \$1,070,000 on 6/18/2003.

³⁸ DC MUD 3 was later consolidated with DC MUD 2 into TC MUD 2.

³⁹ Issuances were as follows: (i) \$3,630,000 on 12/1/1988, and (ii) \$130,000 on 6/18/2003.

presented in each case. Accordingly, to preserve the Court's resources and pursuant to the express authority granted to the Court in Chapter 1205, including Section 1205.061 thereof, as well as Sections 41 and 174 of the Texas Rules of Civil Procedure, the District hereby requests that the Court consolidate the First State Court Action and Second State Court Action into this cause and hear the cases jointly.⁴⁰

VIII.
PRAYER FOR ORDERS REQUIRED BY CHAPTER 1205

57. The District respectfully prays that the Court follow the procedures set forth in Chapter 1205 and further prays:

(a) that the Court, upon presentation of this Original Petition, immediately enter and issue an Order Setting Hearing (the "Order") in the form of a notice in accordance with Section 1205.041 of the Texas Government Code, directed to all Interested Parties; and that the Order require the Interested Parties, in general terms and without naming them, and the Attorney General of Texas, to appear for hearing and trial at 10:00 o'clock a.m., on the first Monday after the expiration of 20 days from the date of issuance of the Order, and to show cause why the

⁴⁰ Tex. Gov't Code Ann § 1205.061 provides, in pertinent part:

- (a) On the issuer's motion, before or after the trial date set under Section 1205.041, the court may enjoin the commencement, prosecution or maintenance of any proceeding by any person that contests the validity of:
 - (1) any organizational proceeding or boundary change of the issuer;
 - (2) the public securities that are described in the petition for declaratory judgment action;
 - (3) a public security authorization relating to the public securities;
 - (4) an action or expenditure of money relating to the public securities, a proposed action or expenditure, or both;
 - (5) a tax, assessment, toll, fee, rate, or other charge authorized to be imposed or made for the payment of the public securities or interest on the public securities; or
 - (6) a pledge of any revenue, receipt, or property, or an encumbrance on a tax, assessment, toll, fee, rate, or other charge, to secure that payment.
- (b) The court may:
 - (1) order a joint trial on all issues pending in any other proceeding in a court in this state and the consolidation of the proceeding with the action under this chapter; and
 - (2) issue necessary or proper orders to effect the consolidation that will avoid unnecessary costs or delays or a multiplicity of proceedings.
- (c) An interlocutory order issued under this section is final and may not be appealed.

prayers of this Original Petition should not be granted;

(b) that the Court require any party opposing this action, or any intervener, other than the Attorney General of Texas, to post a bond for payment of all damages and costs that may accrue by reason of the delay that will be occasioned by the continued participation of the opposing party or intervener in the event that the District finally prevails and obtains substantially the judgment prayed for in this Original Petition;⁴¹

(c) that prior to the date set for hearing and trial, the Clerk of the Court give said notice by causing a substantial copy of the Order to be published in a newspaper of general circulation in Denton County, Texas, Tarrant County, Texas, and Travis County, Texas. The notice shall be published once in each of two consecutive calendar weeks, with the date of the first publication to be not less than 14 days prior to the date set for hearing and trial; and

(d) that the Court grant all proceedings, hearings, and trial on this Original Petition, priority over all other cases, causes or matters pending in the Court.

IX.

PRAYER FOR DECLARATORY JUDGMENT

58. The District has brought this Chapter 1205 action to provide standing to all Interested Parties and to put to rest any current or future legal challenges concerning (i) the District's authority to issue the Proposed Bonds, (ii) the legality and validity of using funds from the Proposed Bonds to finance the Necessary Improvements, and (iii) the District's authority to award contracts for the construction of the Necessary Improvements. Accordingly, the District seeks a declaration by this Court that:

(a) the District is an "issuer" of "public securities" within the meaning of Section 1205.001(1) of the Texas Government Code;

⁴¹ Tex. Gov't Code Ann. § 1205.101.

(b) the TCEQ Order is a valid and final order of the TCEQ that may not be challenged in this Court or any other court, agency, or forum;

(c) the District is authorized to enter into contracts for the Necessary Improvements through any method authorized by Chapters 49 and/or 54 of the Texas Water Code;

(d) the District is authorized to issue and to deliver up to \$5,765,000 in principal amount of its unlimited tax bonds and up to \$9,230,000 in revenue bonds to finance the Necessary Improvements, in one or more series pursuant to the terms and conditions specified in the bond orders, substantial copies of which are attached as Exhibits A and B to this Original Petition, with such changes and completion of blanks as are reasonably appropriate to accommodate the structure of a particular series of the Proposed Bonds as each particular series of Proposed Bonds is priced and sold and in order to obtain the approval of the Attorney General of Texas pursuant to Tex. Gov. Code §1202.003;

(e) the actions taken or to be taken by the District, including regarding the issuance and delivery of the Proposed Bonds pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code are valid, binding, and incontestable under Texas law;

(f) the contracts and agreements executed or proposed to be executed by the District in connection with completing the Necessary Improvements are valid and legally binding contracts and agreements, and are incontestable under Texas law; and

(g) the Proposed Bonds and each installment thereof, when issued and executed pursuant to the procedural requirements provided by law, including approval by the Attorney General of Texas, will constitute lawful and valid obligations and contracts of the District, enforceable according to their respective terms, and that all provisions for the payment of, and

pledges, liens and security provided for such debt and the interest thereon will constitute valid and binding obligations and contracts of the District under the laws of the State of Texas.

59. The District further requests the Court to proceed expeditiously in accordance with Chapter 1205 and, upon trial and final hearing, to quickly resolve all matters listed above in the District's favor.

X.
PRAYER FOR CONSOLIDATION

60. The District respectfully prays that the Court exercise its authority set forth in Chapter 1205, including Section 1205.061 thereof, and Sections 41 and 174 of the Texas Rules of Civil Procedure, and consolidate the First State Court Action and Second State Court Action into this cause and that said cases be heard jointly before this Court. The District further prays that the District Clerk of this Court and the District Clerk of Travis County, Texas take all necessary steps to consolidate the First State Court Action and Second State Court Action into this case without delay and, in any case, prior to 10:00 a.m. on Monday, July 14, 2014.

XI.
PRAYER FOR ADDITIONAL RELIEF

61. The District further respectfully prays that the Court, upon trial and final hearing, award the following additional relief:

(a) decree that the declaratory judgment herein prayed shall, as to all matters adjudicated, be forever binding and conclusive against the District, the Attorney General of Texas, and all Interested Parties, irrespective of whether such parties filed an answer or otherwise appeared herein; and

(b) such other and further relief and orders to which the District may show itself justly entitled at law or in equity.

Dated: June 23, 2014

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Attorneys for Plaintiff Trophy Club

Municipal Utility District No. 1

EXHIBIT LIST

<u>Exhibit</u>	<u>Description</u>
A	Bond Order on Unlimited Tax Bonds
B	Bond Order on Revenue Bonds
C	TCEQ Order Approving the Issuance of the Proposed Bonds and Completion of the Necessary Improvements
D	The District's Formation Documents
E	TC MUD 1's Order 2009-0304 Amended and Restated Order Calling Consolidation Election
F	TC MUD 2's Order 2009-0304 Amended and Restated Order Calling Consolidation Election
G	Trophy Club Municipal Utility District No. 1 Order 2009 – 0512 Order Canvassing Consolidation Election Returns
H	Trophy Club Municipal Utility District No. 2 Order 2009 – 0512 Order Canvassing Consolidation Election Returns
I	Resolution No. 2013-0827A
J	The District's Application to the TCEQ
K	Letter of Notification from the TCEQ that Westlake and Maguire Partners' Motions to Overturn Were Overruled by Operation of Law

EXHIBIT A

AN ORDER authorizing the issuance of "Trophy Club Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2014"; specifying the terms and features of said bonds; levying a continuing direct annual ad valorem tax for the payment of said bonds; resolving other matters incident and related to the issuance, sale, payment and delivery of said Bonds, including the approval and execution of a Paying Agent/Registrar Agreement and the approval and distribution of an Official Statement; and providing an effective date.

WHEREAS, Trophy Club Municipal Utility District No. 1 (the "District") is a conservation and reclamation district, a body corporate and politic and governmental agency of the State of Texas, created as a municipal utility district pursuant to Article 16, Section 59, of the Texas Constitution by Order of the Texas Commission on Environmental Quality ("TCEQ"), the successor in interest to the Texas Water Commission (collectively, the "Commission"), and the District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended (the "Act"); and

WHEREAS, the District is the successor by merger and consolidation of Trophy Club Municipal Utility District No. 1 ("Prior TCMUD 1") and Trophy Club Municipal Utility District No. 2 ("Prior TCMUD 2" and with Prior TCMUD 1, the "Prior TCMUDs") pursuant to a consolidation election held in the District on May 9, 2009 (the "Consolidation Election") by which the District consolidated the Prior TCMUDs into the District and assumed all outstanding and voted but unissued bonds and taxes of the Prior TCMUDs; and

WHEREAS, Prior TCMUD 2 was the successor by merger and consolidation of Denton County Municipal Utility District No. 2 ("Prior DCMUD 2") and Denton County Municipal Utility District No. 3 ("Prior DCMUD 3") pursuant to a consolidation election held on May 5, 1990; and

WHEREAS, the District is authorized by the Act to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend inside or outside its boundaries any and all works, improvements, facilities, plants, equipment and appliances necessary to accomplish the purposes of its creation, all in accordance with the Act; and

WHEREAS, at an election held within and for Prior TCMUD 1 on October 7, 1975 (the "Prior TCMUD 1 Election"), Prior TCMUD 1 was authorized to issue the bonds of the District in the maximum aggregate principal amount of \$12,344,217 for the purchase, acquisition and construction of a waterworks and sanitary sewer system and additions, extensions and improvements thereto for said District including necessary administrative facilities, and for the further purpose of the purchase, acquisition and construction of works, improvements, facilities, plants, equipment and appliances necessary for the drainage of lands within said District, and to provide for the payment of the principal of and interest on such bonds by the levy and collection of ad valorem taxes upon all taxable property within the District; and

WHEREAS, at elections held within and for Prior DCMUD 3 on April 4, 1981 (the "Prior DCMUD 3 1981 Election") and on October 29, 1988 (the "Prior DCMUD 3 1988 Election"), Prior DCMUD 3 was authorized to issue the bonds of the District in the maximum principal amount of \$5,800,000 and \$2,500,000, respectively, for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a waterworks system, sanitary sewer system and drainage and storm sewer system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and administrative facilities needed in connection therewith, and

to provide for the payment of principal of and interest on such bonds by the levy and collection of a sufficient tax upon all taxable property within said District; and

WHEREAS, the elections described above were called and held under and in strict conformity with the Constitution and laws of the State of Texas and of the United States of America, and the respective Boards of Directors of the Prior TCMUD 1 and the Prior DCMUD 3 have heretofore officially declared the results of said elections and declared that the Prior TCMUD 1 and the Prior DCMUD 3 were legally authorized to issue the bonds as described above; and

WHEREAS, pursuant to the authority of the Prior TCMUD 1 Election, the District has heretofore issued \$11,115,000 of its unlimited tax bonds for authorized purposes, and pursuant to the authority of the Prior DCMUD 3 1981 Election, the District has heretofore issued \$3,760,000 of its unlimited tax bonds for authorized purposes; and

WHEREAS, the District has not heretofore issued any bonds pursuant to the authority of the Prior DCMUD 3 1988 Election; and

WHEREAS, there remains voted and unissued of the District's unlimited tax bonds, a total of \$5,769,217 from the Consolidation Election of May 5, 1990, consisting of \$1,229,217 from the voted authorization of Prior TCMUD 1 Election, \$2,040,000 from the voted authorization of Prior DCMUD 3 1981 Election, and \$2,500,000 from the voted authorization of the Prior DCMUD 3 1988 Election; and

WHEREAS, the issuance of \$5,765,000 in principal amount of Bonds pursuant to this Order will be from the original voted bond authorization of Prior TCMUD 1 Election, Prior DCMUD 3 1981 Election and Prior DCMUD 3 1988 Election, leaving voted and unissued, after the delivery of these bonds, \$4,217 from the Prior TCMUD 1 Election, \$0 from the Prior DCMUD 3 1981 Election, and \$-0- from the Prior DCMUD 3 1988 Election; and

WHEREAS, the Commission has approved the issuance by the District of up to \$5,765,000 in unlimited tax bonds pursuant to an order dated February 6, 2014 (the "Commission Order") upon the terms and conditions stated in the Commission Order; and

WHEREAS, the Board of the District deems it necessary and advisable at this time to issue \$5,765,000 of bonds pursuant to the Act and the Prior TCMUD 1 Election, Prior DCMUD 3 1981 Election and Prior DCMUD 3 1988 Election as described above.

NOW, THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1:

SECTION 1: Definitions and Interpretations.

(a) When used in this Order, except in Section 12, and in any resolution or order amendatory or supplemental hereto, the terms listed below shall have the meanings specified below, unless it is otherwise expressly provided or unless the context otherwise requires:

"Additional Bonds" shall mean the additional bonds payable from ad valorem taxes which the Board expressly reserves the right to issue in Section 32 of this Order.

"Authorized Investments" shall mean authorized investments as set forth in the Public Funds Investment Act, Chapter 2256, Texas Government Code and the District's Investment Policy.

"Board" or "Board of Directors" shall mean the governing body of the District.

"Bondholders" or "Registered Owner" shall mean the registered owners of any Bonds. Any reference to a particular percentage or portion of the Bondholders shall mean the registered owners at the particular time of the specified percentage or portion in aggregate principal amount of all Bonds then outstanding exclusive of Bonds held by the District.

"Bonds" shall mean the Bonds initially issued and delivered pursuant to this Order and all substitute Bonds exchanged therefor, as well as all other substitute bonds and replacement bonds issued pursuant hereto, and the term "Bond" shall mean any of the Bonds.

"Order" shall mean this Order of the Board of Directors authorizing the issuance of the Bonds.

"Commission" shall mean the Texas Commission on Environmental Quality or its successor.

"Commission Order" shall mean the order of the Commission signed February 6, 2014 approving the issuance of the Bonds upon the terms and conditions as outlined in such order.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named herein, its designated office in _____, Texas, and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the District and such successor.

"District" shall mean Trophy Club Municipal Utility District No. 1 and any other public agency succeeding to the powers, rights, privileges, and functions of the District, and shall mean, when appropriate, the Board of Directors of the District.

"DTC" shall mean The Depository Trust Company of New York.

"Fiscal Year" shall mean the twelve-month accounting period for the District, as may be changed from time to time by the Board of Directors.

"Interest and Sinking Fund" shall mean the Interest and Sinking Fund created and established in Section 11 of this Order.

"Interest Payment Date" shall mean a date on which interest on the Bonds is due and payable. Interest on the Bonds is due and payable on _____, 201____, and semi-annually on each _____ and _____ thereafter until the earlier of maturity or redemption.

"Paying Agent/Registrar" shall mean _____, and such other bank or trust company as may hereafter be appointed in substitution therefor or in addition thereto to perform the duties of Paying Agent/Registrar in accordance with this Order.

"Project" shall mean the acquisition, construction and equipment of improvements to the District's wastewater treatment facilities.

"Record Date" shall mean, with respect to each interest payment date, the _____ day of the month immediately preceding each Interest Payment Date, whether or not such date is a business day.

"System" shall mean the works, improvements, facilities, plants, equipment, and appliances comprising the waterworks, sanitary sewer, and drainage system of the District now owned or to be hereafter purchased, constructed, or otherwise acquired whether by deed, contract, or otherwise, together with any additions or extensions thereto or improvements and replacements thereof.

The titles and headings of the articles and sections of this Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the taxes pledged to the payment of the Bonds.

SECTION 2: Authorization - Series Designation - Principal Amount-Purpose. Unlimited tax bonds of the District shall be and are hereby authorized to be issued in the aggregate principal amount of \$5,765,000, to be designated and bear the title "TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1 UNLIMITED TAX BONDS, SERIES 2014" (hereinafter referred to as the "Bonds") for (i) the following purposes, to wit: \$1,225,000 for the purchase, acquisition and construction of a waterworks and sanitary sewer system and additions, extensions and improvements thereto for said District including necessary administrative facilities, and for the further purpose of the purchase, acquisition and construction of works, improvements, facilities, plants, equipment and appliances necessary for the drainage of lands within said District and \$4,540,000 for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a waterworks system, sanitary sewer system and drainage and storm sewer system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and administrative facilities needed in connection therewith, and (ii) paying the costs related to the issuance of the Bonds, pursuant to authority conferred by and in conformity with the Constitution and laws of the State of Texas, including Article XVI, Section 59 of the Texas Constitution and Texas Water Code, Chapters 49 and 54, as amended.

SECTION 3: Fully Registered Obligations - Bond Date - Authorized Denominations- Stated Maturities - Interest Rates. The Bonds shall be issued as fully registered obligations, shall be dated _____, 2014 (the "Bond Date"), shall be in denominations of \$5,000 or any integral multiple (within a Stated Maturity) thereof, and shall become due and payable on _____ in each of the years and in principal amounts (the "Stated Maturities") and bear interest at the rate(s) per annum in accordance with the following schedule:

YEAR OF
STATED MATURITY

PRINCIPAL
AMOUNT

INTEREST
RATE(S)

The Bonds shall bear interest on the unpaid principal amounts from the Bond Date at the rate(s) per annum shown above in this Section (calculated on the basis of a 360-day year of twelve 30-day months), and such interest shall be payable on _____ and _____ in each year, commencing _____, 201____, until maturity or prior redemption.

SECTION 4: Terms of Payment - Paying Agent/Registrar. The principal of, premium, if any, and the interest on the Bonds, due and payable by reason of maturity, redemption or otherwise, shall be payable only to the registered owners or holders of the Bonds (hereinafter called the "Holders") appearing on the registration and transfer books maintained by the Paying Agent/Registrar and the payment thereof shall be in any coin or currency of the United States of America, which at the time of payment is legal tender for the payment of public and private debts, and shall be without exchange or collection charges to the Holders.

The selection and appointment of _____ to serve as Paying Agent/Registrar for the Bonds is hereby approved and confirmed. Books and records relating to the registration, payment, exchange and transfer of the Bonds (the "Security Register") shall at all times be kept and maintained on behalf of the District by the Paying Agent/Registrar, all as provided herein, in accordance with the terms and provisions of a "Paying Agent/Registrar Agreement", substantially in the form attached hereto as Exhibit A and such reasonable rules and regulations as the Paying Agent/Registrar and the District may prescribe. The President and Secretary of the Board of Directors are hereby authorized to execute and deliver such Agreement in connection with the delivery of the Bonds. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are paid and discharged, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the District

agrees to promptly cause a written notice thereof to be sent to each Holder by United States Mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of and premium, if any, on the Bonds shall be payable at the Stated Maturities or redemption thereof only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at the Designated Payment/Transfer Office. Interest on the Bonds shall be paid to the Holder whose name appears in the Security Register at the close of business on the Record Date and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

SECTION 5: Redemption.

(a) Optional Redemption. The Bonds maturing on and after _____, 20____ shall be subject to redemption prior to maturity, at the option of the District, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity selected by lot by the Paying Agent/Registrar), _____, 20____, or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

At least forty-five (45) days prior to a redemption date for the Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the District shall notify the Paying Agent/Registrar of the decision to redeem Bonds, the principal amount of each Stated Maturity to be redeemed, and the date of redemption therefor. The decision of the District to exercise the right to redeem Bonds shall be entered in the minutes of the governing body of the District.

(b) Mandatory Redemption. The Bonds maturing on _____, 20____ and _____, 20____ (the "Term Bonds") shall be subject to mandatory redemption prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the respective dates and in principal amounts as follows:

Term Bonds due
Redemption Date

Principal Amount

Term Bonds due
Redemption Date

Principal Amount

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following _____ from moneys set aside for that purpose in the Interest and Sinking Fund (as hereinafter defined). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like Stated Maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth in paragraph (a) of this Section and not theretofore credited against a mandatory redemption requirement.

(c) Selection of Bonds for Redemption. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall treat such Bonds as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bonds by \$5,000 and shall select the Bonds, or principal amount thereof, to be redeemed within such Stated Maturity by lot.

(d) Notice of Redemption. Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States Mail, first class postage prepaid, in the name of the District and at the District's expense, to each Holder of a Bond to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify by number the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the Designated Payment/Transfer Office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given as hereinabove provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable and interest thereon shall cease to accrue from and after the redemption date therefor; provided moneys sufficient for the payment of such Bond (or of the principal amount thereof to be redeemed) at

the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

(e) Conditional Notice of Redemption. With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by this Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

SECTION 6: Registration - Transfer - Exchange of Bonds - Predecessor Bonds. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of each and every owner of the Bonds issued under and pursuant to the provisions of this Order, or if appropriate the nominee thereof. Any Bond may be transferred or exchanged for Bonds of like maturity and amount and in authorized denominations by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Designated Payment/Transfer Office of the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender of any Bond (except for the single Initial Bond hereinafter referenced) for transfer at the Designated Payment/Transfer Office of the Paying Agent/Registrar, one or more new Bonds shall be registered and issued to the assignee or transferee of the previous Holder; such Bonds to be in authorized denominations, of like Stated Maturity and of a like aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds (except for the single Initial Bond hereinafter referenced) may be exchanged for other Bonds of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the Designated Payment/Transfer Office of the Paying Agent/Registrar. Whenever any Bonds are surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Bonds to the Holder requesting the exchange.

All Bonds issued in any transfer or exchange of Bonds shall be delivered to the Holders at the Designated Payment/Transfer Office of the Paying Agent/Registrar or sent by United States Mail, first class, postage prepaid to the Holders, and, upon the registration and delivery thereof, the same shall be the valid obligations of the District, evidencing the same obligation to pay, and entitled to the same benefits under this Order, as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holders, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Bonds cancelled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be "Predecessor Bonds," evidencing all or a portion, as the case may be, of the same obligation to pay evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term "Predecessor Bonds" shall include any mutilated, lost, destroyed, or stolen Bond for which a replacement Bond has been issued, registered and delivered in lieu thereof pursuant to the provisions of Section 13 hereof and such new replacement Bond shall be deemed to evidence the same obligation as the mutilated, lost, destroyed, or stolen Bond.

Neither the District nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a Holder any Bond called for redemption, in whole or in part, within 45 days of the date fixed for the redemption of such Bond; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond called for redemption in part.

SECTION 7: Book-Entry-Only Transfers and Transactions. Notwithstanding the provisions contained in Sections 4, 5 and 6 hereof relating to the payment, redemption and transfer/exchange of the Bonds, the District hereby approves and authorizes the use of "Book Entry Only" securities clearance, settlement and transfer system provided by The Depository Trust Company (DTC), a limited purpose trust company organized under the laws of the State of New York, in accordance with the operational arrangements referenced in the Blanket Issuer Letter of Representations, by and between the District and DTC (the "Depository Agreement").

Pursuant to the Depository Agreement and the rules of DTC, the Bonds shall be deposited with DTC who shall hold said Bonds for its participants (the "DTC Participants"). While the Bonds are held by DTC under the Depository Agreement, the Holder of the Bonds on the Security Register for all purposes, including payment and notices, shall be Cede & Co., as nominee of DTC, notwithstanding the ownership of each actual purchaser or owner of each Bond (the "Beneficial Owners") being recorded in the records of DTC and DTC Participants.

In the event DTC determines to discontinue serving as securities depository for the Bonds or otherwise ceases to provide book entry clearance and settlement of securities transactions in general or the District determines that DTC is incapable of properly discharging its duties as securities depository for the Bonds, the District covenants and agrees with the Holders of the Bonds to cause Bonds to be printed in definitive form and provide for the Bond certificates to be issued and delivered to DTC Participants and Beneficial Owners, as the case may be. Thereafter, the Bonds in definitive form shall be assigned, transferred and exchanged on the Security Register maintained by the Paying Agent/Registrar and payment of such Bonds shall be made in accordance with the provisions of Sections 4, 5 and 6 hereof.

SECTION 8: Execution - Registration. The Bonds shall be executed on behalf of the District by the President or Vice President of the Board of Directors under its seal reproduced or impressed thereon and attested by the Secretary of the Board of Directors. The signature of said officers on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who are or were the proper officers of the Board on the date of adoption of this Order shall be deemed to be duly executed on behalf of the District, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of delivery of the Bonds to the initial purchaser(s) and with respect to Bonds delivered in subsequent exchanges and transfers, all as authorized and provided in Texas Government Code, Chapter 1201, as amended.

No Bond shall be entitled to any right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 10(c), manually executed by the Comptroller of Public Accounts of the State of Texas, or his duly authorized agent, or a certificate of registration substantially in the form provided in Section 10(d), manually executed by an authorized officer, employee or representative of the Paying Agent/Registrar, and either such certificate duly signed upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified, registered and delivered.

SECTION 9: Initial Bond(s). The Bonds herein authorized shall be initially issued either (i) as a single fully registered bond in the total principal amount stated in Section 2 hereof with principal installments to become due and payable as provided in Section 3 hereof and numbered T-1, or (ii) as multiple fully registered bonds, being one bond for each year of maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (hereinafter called the "Initial Bond(s)") and, in either case, the Initial Bond(s) shall be registered in the name of the initial purchaser(s) or the designee thereof. The Initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the initial purchaser(s). Any time after the delivery of the Initial Bond(s), the Paying Agent/Registrar, pursuant to written instructions from the initial purchaser(s), or the designee thereof, shall cancel the Initial Bond(s) delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the initial purchaser(s), or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 10: Forms.

(a) Forms Generally. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Registration Certificate of Paying Agent/Registrar, and the form of Assignment to be printed on each of the Bonds, shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Order and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including insurance legends on insured Bonds and any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the District or determined by the officers executing such Bonds as evidenced by their execution. Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds and the Initial Bond(s) shall be printed, lithographed, or engraved, typewritten, photocopied or otherwise reproduced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution.

(b) Form of Definitive Bonds.

REGISTERED
NO. _____

REGISTERED
PRINCIPAL AMOUNT
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX BOND, SERIES 2014

Bond Date: _____, 2014 Interest Rate: _____% Stated Maturity: _____, 20____ CUSIP NO: _____ Delivery Date: _____, 2014

Registered Owner:

Principal Amount: _____, DOLLARS

The Trophy Club Municipal Utility District No. 1 (hereinafter referred to as the "District"), a body corporate and political subdivision in the Counties of Denton and Tarrant, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay to the Registered Owner named above, or the registered assigns thereof, on the Stated Maturity date specified above (or so much thereof as shall not have been paid upon prior redemption) the Principal Amount hereinabove stated, and to pay interest on the unpaid principal amount hereof from the interest payment date next preceding the "Registration Date" of this Bond appearing below (unless this Bond bears a "Registration Date" as of an interest payment date, in which case it shall bear interest from such date, or unless the "Registration Date" of this Bond is prior to the initial interest payment date in which case it shall bear interest from the Bond Date) at the per annum rate of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on _____ and _____ in each year, commencing _____, 201 _____. Principal of this Bond is payable at its Stated Maturity or redemption to the registered owner hereof, upon presentation and surrender, at the Designated Payment/Transfer Office of the Paying Agent/Registrar executing the registration certificate appearing hereon, or its successor; provided, however, while this Bond is registered to Cede & Co., the payment of principal upon a partial redemption of the principal amount hereof may be accomplished without presentation and surrender of this Bond. Interest is payable to the registered owner of this Bond (or one or more Predecessor Bonds, as defined in the Order hereinafter referenced) whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the _____ day next preceding each interest payment date, and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by

law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of, premium, if any, and interest on this Bond shall be without exchange or collection charges to the owner or holder hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This Bond is one of the series specified in its title issued in the aggregate principal amount of \$5,765,000 (herein referred to as the "Bonds") for (i) the following purposes, to wit: \$1,225,000 for the purchase, acquisition and construction of a waterworks and sanitary sewer system and additions, extensions and improvements thereto for said District including necessary administrative facilities, and for the further purpose of the purchase, acquisition and construction of works, improvements, facilities, plants, equipment and appliances necessary for the drainage of lands within said District and \$4,540,000 for purchasing, constructing, acquiring, owning, operating, repairing, improving or extending a waterworks system, sanitary sewer system and drainage and storm sewer system, including, but not limited to, all additions to such systems and all works, improvements, facilities, plants, equipment, appliances, interests in property, and contract rights needed therefor and administrative facilities needed in connection therewith, and (ii) paying the costs related to the issuance of the Bonds, under and in strict conformity with the Constitution and laws of the State of Texas, including Texas Water Code, Chapters 49 and 54, as amended, elections held for such purposes, and pursuant to an Order adopted by the Board of Directors of the District (herein referred to as the "Order").

The Bonds maturing on the dates identified below (the "Term Bonds") shall be subject to mandatory redemption prior to maturity with funds on deposit in the Interest and Sinking Fund established and maintained for the payment thereof in the Order, and shall be redeemed in part prior to maturity at the price of par plus accrued interest thereon to the mandatory redemption date on the respective dates and in the principal amounts as follows:

Term Bonds due		Term Bonds due	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>

The particular Term Bonds to be redeemed on each redemption date shall be chosen by lot by the Paying Agent/Registrar; provided, however, that the principal amount of Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions appearing below and not theretofore credited against a mandatory redemption requirement.

The Bonds maturing on and after _____, 20__ may be redeemed prior to their Stated Maturities, at the option of the District, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity selected by lot by the Paying Agent/Registrar), on _____, 20__ or on any date thereafter at the redemption price of par, together with accrued interest to the date of redemption.

At least thirty (30) days prior to a redemption date, the District shall cause a written notice of such redemption to be sent by United States Mail, first class postage prepaid, to the registered owners of the Bonds to be redeemed in whole or in part, and subject to the terms and provisions relating thereto contained in the Order. If a Bond (or any portion of its principal sum) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date therefor, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

In the event a portion of the principal amount of a Bond is to be redeemed and the registered owner hereof is someone other than Cede & Co., payment of the redemption price of such principal amount shall be made to the registered owner only upon presentation and surrender of this Bond to the Designated Payment/Transfer Office of the Paying Agent/Registrar, and a new Bond or Bonds of like maturity and interest rate in any authorized denominations provided by the Order for the then unredeemed balance of the principal sum thereof will be issued to the registered owner, without charge. If a Bond is selected for redemption, in whole or in part, the District and the Paying Agent/Registrar shall not be required to transfer such Bond to an assignee of the registered owner within 45 days of the redemption date therefor; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the unredeemed balance of a Bond redeemed in part.

The Bonds are payable (until all the territory within the District is annexed, all properties and assets of the District are taken over, and all debts, liabilities and obligations of the District, including this Bond, are assumed by one or more cities and the District is abolished pursuant to the laws of the State of Texas) from the proceeds of an ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District. The District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on all taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Order, in sufficient amount, together with revenues and receipts available from other sources which are available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due or the redemption price at any earlier required redemption date with respect to the Bonds, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Order. Reference is hereby made to the Order, a copy of which is on file in the Designated Payment/Transfer Office of the Paying Agent/Registrar, and to all of the provisions of which the owner or holder of this Bond by the acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the tax levied for the

payment of the Bonds; the terms and conditions relating to the transfer or exchange of this Bond; the conditions upon which the Order may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the District and the Paying Agent/Registrar; the terms and provisions upon which this Bond may be discharged at or prior to its maturity, and deemed to be no longer Outstanding thereunder; and for other terms and provisions contained therein. Capitalized terms used herein have the meanings assigned in the Order.

No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds of the series of which this Bond is a part, is encumbered by any lien for the benefit of the Registered Owner of this Bond.

This Bond, subject to certain limitations contained in the Order, may be transferred on the Security Register only upon its presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent/Registrar, with the Assignment hereon duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by, the registered owner hereof, or his duly authorized agent. When a transfer on the Security Register occurs, one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued by the Paying Agent/Registrar to the designated transferee or transferees.

The District and the Paying Agent/Registrar, and any agent of either, shall treat the registered owner whose name appears on the Security Register (i) on the Record Date as the owner entitled to payment of interest hereon, (ii) on the date of surrender of this Bond as the owner entitled to payment of principal at the Stated Maturity, or its redemption, in whole or in part, and (iii) on any other date as the owner for all other purposes, and neither the District nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary. In the event of nonpayment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, recited, represented and declared that the District is a body corporate and political subdivision duly organized and legally existing under and by virtue of the Constitution and laws of the State of Texas; that the issuance of the Bonds is duly authorized by law; that all acts, conditions and things required to exist and be done precedent to and in the issuance of the Bonds to render the same lawful and valid obligations of the District have been properly done, have happened and have been performed in regular and due time, form and manner as required by the Constitution and laws of the State of Texas, and the Order; that the Bonds do not exceed any Constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by the levy of a tax as aforesated. In case any provision in this Bond shall be invalid, illegal, or unenforceable, the

validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Order shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Board of Directors of the District has caused this Bond to be duly executed under the official seal of the District.

TROPHY CLUB MUNICIPAL UTILITY
DISTRICT NO. 1

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(SEAL)

(c) Form of Registration Certificate of Comptroller of Public Accounts to appear on Initial Bond(s) only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS
THE STATE OF TEXAS

(
(REGISTER NO. _____
(

I HEREBY CERTIFY that this Bond has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

- (d) Form of Certificate of Paying Agent/Registrar to appear on Definitive Bonds only.

REGISTRATION CERTIFICATE OF PAYING AGENT/REGISTRAR

This Bond has been duly issued and registered under the provisions of the within-mentioned Order; the bond or bonds of the above entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

The designated offices of the Paying Agent/Registrar in _____, is the Designated Payment/Transfer Office for this Bond.

as Paying Agent/Registrar

Registration date: _____

By _____
Authorized Signature

- (e) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto
(Print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number: _____)
_____ the within Bond and all rights thereunder, and hereby
irrevocably constitutes and appoints _____

_____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature guaranteed:

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular.

(f). The Initial Bond(s) shall be in the form set forth in paragraph (b) of this Section, except that the form of the single fully registered Initial Bond shall be modified as follows:

REGISTERED
NO. T-1

REGISTERED
PRINCIPAL AMOUNT
\$5,765,000

UNITED STATES OF AMERICA
STATE OF TEXAS
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX BOND, SERIES 2014

Bond Date:
_____, 2014

Registered Owner:

Principal Amount: FIVE MILLION SEVEN HUNDRED SIXTY-FIVE THOUSAND DOLLARS

The Trophy Club Municipal Utility District No. 1 (hereinafter referred to as the "District"), a body corporate and political subdivision in the Denton and Tarrant Counties, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay to the Registered Owner named above, or the registered assigns thereof, the Principal Amount hereinabove stated on _____ in each of the years and in principal installments in accordance with the following schedule:

<u>YEAR OF</u> <u>MATURITY</u>	<u>PRINCIPAL</u> <u>INSTALLMENTS</u>	<u>INTEREST</u> <u>RATE</u>
-----------------------------------	---	--------------------------------

(Information to be inserted from schedule in Section 2 hereof).

(or so much principal thereof as shall not have been prepaid prior to maturity) and to pay interest on the unpaid principal installments hereof from the Bond Date at the per annum rates of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on _____ and _____ in each year, commencing _____, 201____. Principal installments of this Bond are payable in the year of maturity or on a redemption date to the registered owner hereof by _____

(the "Paying Agent/Registrar"), upon presentation and surrender, at its designated offices in _____ (the "Designated Payment/Transfer Office"). Interest is payable to the registered owner of this Bond whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the _____ day next preceding each interest payment date, and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

SECTION 11: Levy of Taxes. To provide for the payment of Bonds, there is hereby levied, and there shall be annually assessed and collected in due time, form, and manner, a tax on all taxable property in the District, without limit as to rate or amount, sufficient to pay the principal of and interest on the Bonds as the same becomes due and payable; and such tax hereby levied on each one hundred dollars' valuation of taxable property in the District for the payment of the Bonds shall be at a rate from year to year as will be ample and sufficient to provide funds each year to pay the principal of and interest on said Bonds while Outstanding; full allowance being made for delinquencies and costs of collection. The taxes levied, assessed, and collected for and on account of the Bonds shall be accounted for separate and apart from all other funds of the District and the taxes assessed and collected for the Bonds shall be deposited in the "Special Series 2014 Unlimited Tax Bond Fund" (hereinafter called the "Interest and Sinking Fund") to be maintained at an official depository of the District's funds; and such taxes hereby levied, and to be assessed and collected annually, for the Bonds are hereby pledged to the payment of the Bonds. In determining the rate of tax to be levied, assessed and collected, the District may take into account the amount in the Interest and Sinking Fund from the deposit of Bond proceeds on deposit in said fund for the payment of interest and whether the District reasonably expects to have revenue or receipts available from other sources which are legally available to pay debt service on the Bonds.

The President, Vice President and Secretary of the Board of Directors, the District Manager and the Director of Finance of the District, individually or jointly, are hereby authorized and directed to cause to be transferred to the Paying Agent/Registrar for the Bonds, from funds on deposit in the Interest and Sinking Fund, amounts sufficient to fully pay and discharge promptly each installment of interest and principal of the Bonds as the same shall become payable or matures; such transfers to be made in such manner as will cause collected funds to be deposited with the Paying Agent/Registrar on or before each principal and interest payment date for the Bonds.

SECTION 12: Consolidation and Dissolution of District. To the extent provided by law, the pledge of taxes set forth in Section 11 hereof will terminate if one or more cities takes over all properties and assets, assumes all debts, liabilities, and obligations, and performs all functions and services of the District, and the District is abolished pursuant to law.

The laws of the State of Texas permit the District to be consolidated with one or more conservation and reclamation districts. In the event the District is consolidated with another district or districts, the District reserves the right to:

(a) Consolidate the System with a similar system of one or more districts with which the District is consolidating and operate and maintain the systems as one consolidated system (herein for purposes of this section the "Consolidated System").

(b) Apply the net revenues from the operation of the Consolidated System to the payment of principal, interest, redemption price and bank charges on the revenue bonds or the combination tax and revenue bonds (herein for purposes of this section the "Revenue Bonds") of the District and of the district or districts with which the District is consolidating (herein collectively the "Consolidating Districts") without preference to any series of bonds (except subordinate lien revenue bonds which shall continue to be subordinate to the first lien Revenue Bonds of the Consolidating Districts).

(c) Pledge the net revenues of the Consolidated System to the payment of principal, interest, redemption price and bank charges on Revenue Bonds which may be issued by the

Consolidating Districts on a parity with the outstanding first lien Revenue Bonds of the Consolidating Districts.

SECTION 13: Mutilated, Destroyed, Lost and Stolen Bonds. In case any Bond shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond; and with respect to a lost, destroyed or stolen Bond a replacement Bond may be issued only upon the approval of the District and after (i) the filing by the Holder with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the District and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

Every replacement Bond issued pursuant to this Section shall be a valid and binding obligation, and shall be entitled to all the benefits of this Order equally and ratably with all other Outstanding Bonds; notwithstanding the enforceability of payment by anyone of the destroyed, lost, or stolen Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

SECTION 14: Satisfaction of Obligation of District. If the District shall pay or cause to be paid, or there shall otherwise be paid to the Holders; the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Order, then the pledge of taxes levied under this Order and all covenants, agreements, and other obligations of the District to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The District covenants that no deposit of moneys or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar,

or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the District or deposited as directed by the District. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall upon the request of the District be remitted to the District against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the District shall be subject to any applicable unclaimed property laws of the State of Texas.

The term "Government Securities", as used herein, shall mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the District are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (iv) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds.

SECTION 15: Order a Contract - Amendments - Outstanding Bonds. This Order shall constitute a contract with the Holders from time to time, be binding on the District, and shall not be amended or repealed by the District so long as any Bond remains Outstanding except as permitted in this Section and in Section 31 hereof. The District may, without the consent of or notice to any Holders, from time to time and at any time, amend this Order in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Order; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

The term "Outstanding" when used in this Order with respect to Bonds means, as of the date of determination, all Bonds theretofore issued and delivered under this Order, except:

- (1) those Bonds cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;
- (2) those Bonds deemed to be duly paid by the District in accordance with the provisions of Section 14 hereof; and

(3) those mutilated, destroyed, lost, or stolen Bonds which have been replaced with Bonds registered and delivered in lieu thereof as provided in Section 13 hereof.

SECTION 16: Covenants to Maintain Tax-Exempt Status.

(a) Definitions. When used in this Section, the following terms shall have the following meanings:

"Closing Date" means the date on which the Bonds are first authenticated and delivered to the initial purchasers against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield". of (1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations and (2) the Bonds has the meaning set forth in Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The District shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the District receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not

adversely affect the exemption from federal income tax of the interest on any Bond, the District shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by section 141 of the Code and the Regulations and rulings thereunder, the District shall at all times prior to the last Stated Maturity of Bonds:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the District or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the District shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the District shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment (or use Gross Proceeds to replace money so invested), if as a result of such investment the Yield from the Closing Date of all Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the Yield of the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the District shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The District shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The District shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the District may commingle Gross Proceeds of the Bonds with other money of the District, provided that the District separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the District shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The District shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the District shall pay to the United States from the construction fund, other appropriate fund, or if permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the Interest and Sinking Fund, the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The District shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the District shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) Elections. The District hereby directs and authorizes the President of the Board of Directors, District Manager and Director of Finance, individually or jointly, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

SECTION 17: Sale of the Bonds. The Bonds are hereby sold, pursuant to the taking of public bids therefor, on this date, and shall be delivered to [] (the "Purchaser") at a price of par plus a \$[] cash premium plus accrued interest. The Board hereby finds and determines that the net effective interest rate on the Bonds, as calculated pursuant to Texas Government Code, Chapter 1204, as amended is []%. It is hereby officially found, determined and declared that the terms of this sale are the most advantageous reasonably obtainable and the Purchaser's sealed bid produced the lowest net effective interest rate to the District as required by Section 49.183, Texas Water Code. The Initial Bond(s) shall be registered in the name of the Purchaser.

SECTION 18: Official Statement. The use of the Preliminary Official Statement by the Purchaser in connection with the public offering and sale of the Bonds is hereby ratified, confirmed and approved in all respects. The final Official Statement, being a modification and amendment of the Preliminary Official Statement to reflect the terms of sale (together with such changes approved by the President and Secretary of the Board of Directors, the District Manager and the Director of Finance, any one or more of said officials), shall be and is hereby in all respects approved and the Purchaser is hereby authorized to use and distribute said final Official Statement, dated _____, 2014, in the reoffering, sale and delivery of the Bonds to the public. The President and Secretary of the Board of Directors are further authorized and directed to deliver for and on behalf of the District copies of said Preliminary Official Statement and Official Statement in final form as may be required by the Purchaser, and such final Official Statement in the form and content approved by the President or Secretary of the Board, Director Manager or Director of Finance (one or more of said officials) shall be deemed to be approved by the Board of Directors and constitute the Official Statement authorized for distribution and use by the Purchaser.

SECTION 19: Control and Custody of Bonds. The President of the Board of Directors of the District shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, including the printing and supply of definitive Bonds, and shall take and have charge and control of the Initial Bond(s) pending the approval thereof by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery thereof to the Purchasers.

Furthermore, the President and Secretary of the Board of Directors, the District Manager and Director of Finance of the District, any one or more of said officials, are hereby authorized and directed to furnish and execute such documents and certifications relating to the District and the issuance of the Bonds, including certifications as to facts, estimates, circumstances and

reasonable expectations pertaining to the use, expenditure and investment of the proceeds of the Bonds, as may be necessary for the approval of the Attorney General, the registration by the Comptroller of Public Accounts and the delivery of the Bonds to the Purchasers and, together with the District's financial advisor, bond counsel and the Paying Agent/Registrar, make the necessary arrangements for the delivery of the Initial Bond(s) to the Purchasers and the initial exchange thereof for definitive Bonds.

SECTION 20: Proceeds of Sale. The proceeds of sale of the Bonds, less amounts to pay costs of issuance and premium in the amount of \$_____, shall be deposited to the credit of a construction account maintained on the books and records of the District and, if not immediately invested, in a fund kept at a depository bank of the District. Pending expenditure for the Project, such proceeds of sale may be invested in Authorized Investments, including guaranteed investment contracts permitted in Texas Section 2256.015, et seq, and any investment earnings realized may be expended for the Project or deposited in the Interest and Sinking Fund as shall be determined by the Board of Directors. Accrued interest and premium in the above amount received from the sale of the Bonds and any excess bond proceeds, including investment earnings, remaining after completion of all authorized projects or purposes shall be deposited to the credit of the Interest and Sinking Fund.

Pursuant to the Commission Order, the District will not expend \$4,936,795.46 (\$4,292,865.70 for construction plus \$643,929.76 in contingencies) for the Project until receipt by the Board of plans and specifications approved by all entities with jurisdiction and construction documents.

SECTION 21: Notices to Holders - Waiver. Wherever this Order provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first class postage prepaid, to the address of each Holder appearing in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds. Where this Order provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 22: Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the District, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The District may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the District may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be returned to the District.

SECTION 23: Legal Opinion. The obligation of the Purchasers to accept delivery of the Bonds is subject to being furnished a final opinion of Fulbright & Jaworski LLP, Attorneys,

Dallas, Texas, approving such Bonds as to their validity, said opinion to be dated and delivered as of the date of delivery and payment for the Bonds. A true and correct reproduction of said opinion or an executed counterpart thereof is hereby authorized to be either printed on definitive printed obligations or deposited with DTC along with the global certificates for the implementation and use of the Book Entry Only System used in the settlement and transfer of the Bonds.

SECTION 24: CUSIP Numbers. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof and neither the District nor attorneys approving the Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

SECTION 25: Benefits of Order. Nothing in this Order, expressed or implied, is intended or shall be construed to confer upon any person other than the District, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Order or any provision hereof, this Order and all its provisions being intended to be and being for the sole and exclusive benefit of the District, the Paying Agent/Registrar and the Holders.

SECTION 26: Inconsistent Provisions. All orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Order are hereby repealed to the extent of such conflict, and the provisions of this Order shall be and remain controlling as to the matters contained herein.

SECTION 27: Governing Law. This Order shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 28: Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

SECTION 29: Construction of Terms. If appropriate in the context of this Order, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

SECTION 30: Severability. If any provision of this Order or the application thereof to any circumstance shall be held to be invalid, the remainder of this Order and the application thereof to other circumstances shall nevertheless be valid, and the Board of Directors hereby declares that this Order would have been enacted without such invalid provision.

SECTION 31: Continuing Disclosure Undertaking.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time or officially interpreted by the SEC.

"SEC" means the United States Securities and Exchange Commission.

(b) Annual Reports. The District shall provide annually to the MSRB (1) within six months after the end of each fiscal year ending in or after 2014, financial information and operating data with respect to the District of the general type included in the final Official Statement authorized by Section 18 of this Order, being the information described in **Exhibit B** hereto, and (2) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be prepared in accordance with the accounting principles described in **Exhibit B** hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data of the general type included in the Official Statement as Appendix ___ by the required time and audited financial statements when and if such audited financial statements become available.

If the District changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section 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 Web site or filed with the SEC.

(c) Notice of Certain Events. The District shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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;
- (vii) Modifications to rights of holders of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below;

(xiii) The consummation of a merger, consolidation, or acquisition involving the District 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

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District 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 District, 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 District.

The District shall notify the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with this Section by the time required by this Section.

(d) Filings with the MSRB. All financial information, operating data, financial statements, notices, and other documents provided to the MSRB in accordance with this Section shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(e) Limitations, Disclaimers and Amendments. The District shall be obligated to observe and perform the covenants specified in this Section with respect to the District and the Bonds while, but only while, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give the notice required by subsection (c) hereof of any Bond calls and/or defeasances that cause the District to no longer be such an "obligated person".

The provisions of this Section are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the District or the State of Texas

or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Section shall constitute a breach of or default under this Order for purposes of any other provision of this Order.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

Notwithstanding anything herein to the contrary, the provisions of this Section may be amended by the District from time to time to adapt to changed circumstances resulting from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a Person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. The provisions of this Section may also be amended from time to time or repealed by the District if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the District's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the District so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with subsection (b) an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

SECTION 32: Additional Bonds and Refunded Bonds.

(a) The District expressly reserves the right to issue, in one or more installments, for the purpose of purchasing, constructing, acquiring, owning, operating, maintaining, repairing, improving, or extending the System, or for any other lawful purpose:

(1) the unissued unlimited tax bonds which remain authorized but unissued; and

(2) such other unlimited tax bonds as may hereafter be authorized at subsequent elections.

(b) The District further reserves the right to issue combination unlimited tax and revenue bonds, if authorized by election, and such other bonds or other obligations as may be lawfully issued by the District including any obligations issued for special projects or defined areas.

(c) The District further reserves the right to issue refunding bonds in any manner permitted by law to refund the Bonds, any Additional Bonds or any other bonds issued by the District, at or prior to their respective dates of maturity or redemption.

SECTION 33: Further Procedures. Any one or more of the President, Vice President and Secretary of the Board of Directors, the District Manager and Director of Finance of the District are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and on behalf of the District all agreements, instruments, certificates or other documents, whether mentioned herein or not, as may be necessary or desirable in order to carry out the terms and provisions of this Order and the issuance of the Bonds. In addition, prior to the initial delivery of the Bonds, the President and Vice President of the Board of Directors, the District Manager, Director of Finance or Bond Counsel to the District are each hereby authorized and directed to approve any changes or corrections to this Order or to any of the documents authorized and approved by this Order: (i) in order to cure any ambiguity, formal defect, or omission in the Order or such other document; or (ii) as requested by the Attorney General of the State of Texas or his representative to obtain the approval of the Bonds by the Attorney General. In the event that any officer of the District whose signature shall appear on any document shall cease to be such officer before the delivery of such document, such signature nevertheless shall be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 34: Incorporation of Findings and Determinations. The findings and determinations of the Board of Directors of the District contained in the preamble hereof are hereby incorporated by reference and made a part of this Order for all purposes as if the same were restated in full in this Section.

SECTION 35: No Recourse Against District Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bond or for any claim based thereon or on this Order against any official of the District or any person executing any Bond.

SECTION 36: Authorization of Escrow Agreement; Payment of TCEQ Fee. The Board hereby finds and determines that it is in the best interest of the District to authorize the execution of an Escrow Agreement to comply with the TCEQ's rules and regulations and other applicable law. A copy of the Escrow Agreement is attached hereto, in substantially final form, as Exhibit C and is incorporated by reference to the provisions of this Order. The President, Vice President and Secretary of the Board, District Manager or Director of Finance (one or more of said officials), or the designee thereof, are authorized to execute the Escrow Agreement as the act and deed of the District.

SECTION 37: Public Meeting. It is officially found, determined, and declared that the meeting at which this Order is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Order, was given, all as required by Texas Government Code, Chapter 551, as amended, and Texas Water Code, Sections 49.063 and 49.064, as amended.

SECTION 38: Effective Date. This Order shall be in force and effect from and after its passage on the date shown below.

[Remainder of page left blank intentionally]

PASSED AND ADOPTED, this _____, 2014.

TROPHY CLUB MUNICIPAL UTILITY
DISTRICT NO. 1

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(District Seal

EXHIBIT A
PAYING AGENT/REGISTRAR AGREEMENT

40660928.2/11404702

A-1

TCMUD005701

EXHIBIT B

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION AND OPERATING DATA

Information and Data

The following information and data with respect to the District referred to in Section 31 of this Order are the quantitative financial information and operating data specified and included in the Appendix or under the headings of the Official Statement referred to below:

1. The financial statements of the District appended to the Official Statement as Appendix ____ for the most recently concluded fiscal year.
2. The information in Tables 1 through ____ in the Official Statement.

Accounting Principles

The accounting principles referred to in such Section with respect to the District are the accounting principles described in the notes to the financial statements referred to in paragraph 1 above.

EXHIBIT C
ESCROW AGREEMENT

40660928.2/11404702

C-1

TCMUD005703

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EXHIBIT B

AN ORDER authorizing the issuance of "Trophy Club Municipal Utility District No. 1 Revenue Bonds, Series 2014"; specifying the terms and features of said bonds; pledging the net revenues of the District's Water and Sewer System for the payment of the principal of and interest on the Bonds; resolving other matters incident and related to the issuance, sale, payment and delivery of said Bonds, including the approval and execution of a Paying Agent/Registrar Agreement and the approval and distribution of an Official Statement; and providing an effective date.

WHEREAS, Trophy Club Municipal Utility District No. 1 (the "District") is a conservation and reclamation district, a body corporate and politic and governmental agency of the State of Texas, created as a municipal utility district pursuant to Article 16, Section 59, of the Texas Constitution by Order of the Texas Commission on Environmental Quality ("TCEQ"), the successor in interest to the Texas Water Commission (collectively, the "Commission"), and the District operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended (the "Act"); and

WHEREAS, the Board of Directors (the "Board of Directors") of Trophy Club Municipal Utility District No. 1 (the "District") hereby finds and determines that it is necessary, useful and appropriate for the District's public purposes to authorize and provide for the issuance and sale of revenue bonds of the District for the purposes hereinafter provided, as authorized by the Act; and

WHEREAS, the Board of Directors hereby further finds and determines that such revenue bonds can and should be issued on a parity with the District's outstanding revenue obligations (hereinafter defined and identified as "Existing Obligations") payable from and equally secured by a first lien on and pledge of the Net Revenues of the District's Water and Sewer System (the "System") in that (i) the District Manager of the District and the President of the Board of Directors will execute a certificate to the effect that no default exists in connection with any of the covenants or requirements of the orders or resolutions authorizing the issuance of the Existing Obligations, (ii) the District Manager of the District and the President of the Board of Directors will execute a certificate to the effect that the interest and sinking funds for the Existing Obligations contain the amount of money now required to be on deposit therein and (iii) the District will secure a certificate of a Certified Public Accountant to the effect that in his opinion the Net Earnings of the System for the [last completed fiscal year of the District] [the twelve month period ending _____] are at least equal to 1.00 times the average annual principal and interest requirements for the then outstanding Parity Revenue Obligations and the Bonds herein authorized;

NOW, THEREFORE, BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1:

SECTION 1: Definitions and Interpretations.

(a) Unless otherwise expressly provided or unless the context clearly requires otherwise, in this Order the following terms shall have the meanings specified below:

"Additional Parity Obligations" means the additional parity obligations permitted to be issued by Section 18 of this Order.

"Average Annual Debt Service Requirements" means that average amount which, at the time of computation, will be required to pay the Debt Service Requirement on all outstanding Bonds and Additional Parity Obligations when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Bonds and Additional Parity Obligations. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds and accrued interest on the Parity Revenue Obligations be excluded in making the aforementioned computation.

"Closing Date" means the date of the initial delivery of and payment for the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, including applicable regulations, published rulings and court decisions relating thereto.

"Construction Fund" means the construction fund established by Section 12 of this Order.

"Debt Service Requirements" means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the District as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the "Revenue Bond Index" or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named herein, its designated office in _____, Texas, and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the District and such successor.

"Event of Default" means any Event of Default as defined in Section 20 of this Order.

"Existing Obligations" means the outstanding Trophy Club Municipal Utility District No. 1 Revenue Note, Series 2012 and Trophy Club Municipal Utility District No. 1 Revenue Note, Series 2013.

"Fiscal Year" means the twelve-month accounting period used by the District currently ending on _____ of each year.

"Government Securities" (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and on the date of their acquisition or purchase by the District are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations under applicable law that may be used to defease obligations such as the Bonds.

"Initial Bond" means the Bond described in Section 9.

"Interest and Sinking Fund" means the interest and sinking fund established by Section 12 of this Order.

"Interest Payment Date" means the date or dates upon which interest on the Bonds is scheduled to be paid until the maturity of the Bonds, such dates being _____ and _____ of each year commencing _____.

"Net Revenues" and "Net Revenues of the System" mean all of the revenues of every kind and nature received through the operation of the System, less the expenses of operation and maintenance paid thereof, including salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions as in the judgment of the Board, reasonably and fairly exercised, are necessary to keep the System in operation and render adequate service to the District and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair the security of the Bond or the Additional Parity Obligations shall be deducted in determining "Net Revenues".

"Bonds" means the District's revenue bond entitled "Trophy Club Municipal Utility District No. 1 Revenue Bonds, Series 2014" authorized to be issued by this Order.

"Order" means this Order.

"Outstanding" - When used in this Order with respect to Bonds or Parity Revenue Obligations means, as of the date of determination, all Bonds theretofore issued and delivered, except:

(1) those Bonds or Parity Revenue Obligations cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds or Parity Revenue Obligations paid or deemed to be paid in accordance with the provisions of Section 22 hereof, or substantially similar provisions with respect to Parity Revenue Obligations; and

(3) those Bonds or Parity Revenue Obligations that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 21 hereof or similar provisions with respect to Parity Revenue Obligations.

"Parity Revenue Obligations" means the Bonds, the Existing Obligations, and Additional Parity Obligations.

"Paying Agent/Registrar" means _____, any successor thereto or an entity which is appointed as and assumes the duties of paying agent/registrar as provided in this Order.

"Project" shall mean the acquisition, construction and equipment of improvements to the District's wastewater treatment facilities.

"Record Date" means the _____ day of the month next preceding an Interest Payment Date.

"Reserve Fund" means the fund established in Section 12 of this Order.

"Required Reserve" means the amount required to be deposited and maintained in the Reserve Fund under the provisions of Section 15 of this Order.

"System" means the District's water and sewer system, including all present and future extensions, additions, replacements and improvements thereto.

(b) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(c) This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein to sustain the validity of this Order.

SECTION 2: Authorization - Series Designation - Principal Amount-Purpose. Revenue bonds of the District shall be and are hereby authorized to be issued in the aggregate principal amount of \$9,230,000, to be designated and bear the title "TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1 REVENUE BONDS, SERIES 2014" (hereinafter referred to as the "Bonds") for (i) acquiring, constructing and equipping improvements to the District's wastewater

treatment facilities and (ii) paying the costs related to the issuance of the Bonds, pursuant to authority conferred by and in conformity with the Constitution and laws of the State of Texas, including Article XVI, Section 59 of the Texas Constitution and Texas Water Code, Chapters 49 and 54, as amended.

SECTION 3: Fully Registered Obligations - Bond Date - Authorized Denominations- Stated Maturities - Interest Rates. The Bonds shall be issued as fully registered obligations, shall be dated _____, 2014 (the "Bond Date"), shall be in denominations of \$5,000 or any integral multiple (within a Stated Maturity) thereof, and shall become due and payable on _____ in each of the years and in principal amounts (the "Stated Maturities") and bear interest at the rate(s) per annum in accordance with the following schedule:

<u>YEAR OF</u> <u>STATED MATURITY</u>	<u>PRINCIPAL</u> <u>AMOUNT</u>	<u>INTEREST</u> <u>RATE(S)</u>
--	-----------------------------------	-----------------------------------

The Bonds shall bear interest on the unpaid principal amounts from the Bond Date at the rate(s) per annum shown above in this Section (calculated on the basis of a 360-day year of twelve 30-day months), and such interest shall be payable on _____ and _____, in each year, commencing _____, 201____, until maturity or prior redemption.

SECTION 4: Terms of Payment - Paying Agent/Registrar. The principal of, premium, if any, and the interest on the Bonds, due and payable by reason of maturity, redemption or otherwise, shall be payable only to the registered owners or holders of the Bonds (hereinafter called the "Holders" or "Owners") appearing on the registration and transfer books maintained by the Paying Agent/Registrar and the payment thereof shall be in any coin or currency of the United States of America, which at the time of payment is legal tender for the payment of public and private debts, and shall be without exchange or collection charges to the Holders.

The selection and appointment of _____ to serve as Paying Agent/Registrar for the Bonds is hereby approved and confirmed. Books and records relating to the registration, payment, exchange

and transfer of the Bonds (the "Security Register") shall at all times be kept and maintained on behalf of the District by the Paying Agent/Registrar, all as provided herein, in accordance with the terms and provisions of a "Paying Agent/Registrar Agreement", substantially in the form attached hereto as Exhibit A and such reasonable rules and regulations as the Paying Agent/Registrar and the District may prescribe. The President and Secretary of the Board of Directors are hereby authorized to execute and deliver such Agreement in connection with the delivery of the Bonds. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are paid and discharged, and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each Holder by United States Mail, first class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of and premium, if any, on the Bonds shall be payable at the Stated Maturities or redemption thereof only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at the Designated Payment/Transfer Office. Interest on the Bonds shall be paid to the Holder whose name appears in the Security Register at the close of business on the Record Date and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the Holder recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Holder. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/ Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

SECTION 5: Redemption.

(a) Optional Redemption. The Bonds maturing on and after _____, 20__ shall be subject to redemption prior to maturity, at the option of the District, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity selected by lot by the Paying Agent/Registrar), _____, 20__, or on any date thereafter at the redemption price of par plus accrued interest to the date of redemption.

At least forty-five (45) days prior to a redemption date for the Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the District shall notify the Paying Agent/Registrar of the decision to redeem Bonds, the principal amount of each Stated

Maturity to be redeemed, and the date of redemption therefor. The decision of the District to exercise the right to redeem Bonds shall be entered in the minutes of the governing body of the District.

(b) Mandatory Redemption. The Bonds maturing on _____, 20__ and _____, 20__ (the "Term Bonds") shall be subject to mandatory redemption prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the respective dates and in principal amounts as follows:

Term Bonds due _____	Term Bonds due _____
<u>Redemption Date</u>	<u>Redemption Date</u>
	<u>Principal Amount</u>
\$,000	\$,000
\$,000	\$,000
\$,000 (maturity)	\$,000 (maturity)

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following _____ from moneys set aside for that purpose in the Interest and Sinking Fund (as hereinafter defined). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like Stated Maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions set forth in paragraph (a) of this Section and not theretofore credited against a mandatory redemption requirement.

(c) Selection of Bonds for Redemption. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/ Registrar shall treat such Bonds as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bonds by \$5,000 and shall select the Bonds, or principal amount thereof, to be redeemed within such Stated Maturity by lot.

(d) Notice of Redemption. Not less than thirty (30) days prior to a redemption date for the Bonds, a notice of redemption shall be sent by United States Mail, first class postage prepaid, in the name of the District and at the District's expense, to each Holder of a Bond to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify by number the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the

principal amount thereof to be redeemed, shall be made at the Designated Payment/Transfer Office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given as hereinabove provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable and interest thereon shall cease to accrue from and after the redemption date therefor; provided moneys sufficient for the payment of such Bond (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

(e) Conditional Notice of Redemption. With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by this Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

SECTION 6: Registration - Transfer - Exchange of Bonds - Predecessor Bonds. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of each and every owner of the Bonds issued under and pursuant to the provisions of this Order, or if appropriate the nominee thereof. Any Bond may be transferred or exchanged for Bonds of other authorized denominations by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Designated Payment/Transfer Office of the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/ Registrar.

Upon surrender of any Bond (except for the single Initial Bond hereinafter referenced) for transfer at the Designated Payment/Transfer Office of the Paying Agent/Registrar, one or more new Bonds shall be registered and issued to the assignee or transferee of the previous Holder; such Bonds to be in authorized denominations, of like Stated Maturity and of a like aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds (except for the single Initial Bond hereinafter referenced) may be exchanged for other Bonds of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange, upon surrender of the Bonds to be exchanged at the Designated Payment/Transfer Office of the Paying Agent/Registrar. Whenever any Bonds are surrendered for exchange, the Paying Agent/Registrar shall register and deliver new Bonds to the Holder requesting the exchange.

All Bonds issued in any transfer or exchange of Bonds shall be delivered to the Holders at the Designated Payment/Transfer Office of the Paying Agent/Registrar or sent by United States Mail, first class, postage prepaid to the Holders, and, upon the registration and delivery thereof, the same shall be the valid obligations of the District, evidencing the same obligation to

pay, and entitled to the same benefits under this Order, as the Bonds surrendered in such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holders, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any tax or other governmental charges required to be paid with respect to such transfer or exchange.

Bonds cancelled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be "Predecessor Bonds," evidencing all or a portion, as the case may be, of the same obligation to pay evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term "Predecessor Bonds" shall include any mutilated, lost, destroyed, or stolen Bond for which a replacement Bond has been issued, registered and delivered in lieu thereof pursuant to the provisions of Section 21 hereof and such new replacement Bond shall be deemed to evidence the same obligation as the mutilated, lost, destroyed, or stolen Bond.

Neither the District nor the Paying Agent/Registrar shall be required to issue or transfer to an assignee of a Holder any Bond called for redemption, in whole or in part, within 45 days of the date fixed for the redemption of such Bond; provided, however, such limitation on transferability shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond called for redemption in part.

SECTION 7: Book-Entry-Only Transfers and Transactions. Notwithstanding the provisions contained in Sections 4, 5 and 6 hereof relating to the payment, redemption and transfer/exchange of the Bonds, the District hereby approves and authorizes the use of "Book Entry Only" securities clearance, settlement and transfer system provided by The Depository Trust Company (DTC), a limited purpose trust company organized under the laws of the State of New York, in accordance with the operational arrangements referenced in the Blanket Issuer Letter of Representation, by and between the District and DTC (the "Depository Agreement").

Pursuant to the Depository Agreement and the rules of DTC, the Bonds shall be deposited with DTC who shall hold said Bonds for its participants (the "DTC Participants"). While the Bonds are held by DTC under the Depository Agreement, the Holder of the Bonds on the Security Register for all purposes, including payment and notices, shall be Cede & Co., as nominee of DTC, notwithstanding the ownership of each actual purchaser or owner of each Bond (the "Beneficial Owners") being recorded in the records of DTC and DTC Participants.

In the event DTC determines to discontinue serving as securities depository for the Bonds or otherwise ceases to provide book entry clearance and settlement of securities transactions in general or the District determines that DTC is incapable of properly discharging its duties as securities depository for the Bonds, the District covenants and agrees with the Holders of the Bonds to cause Bonds to be printed in definitive form and provide for the Bond certificates to be issued and delivered to DTC Participants and Beneficial Owners, as the case may be. Thereafter, the Bonds in definitive form shall be assigned, transferred and exchanged on the Security Register maintained by the Paying Agent/Registrar and payment of such Bonds shall be made in accordance with the provisions of Sections 4, 5 and 6 hereof.

SECTION 8: Execution - Registration. The Bonds shall be executed on behalf of the District by the President of the Board of Directors under its seal reproduced or impressed

thereon and attested by the Secretary of the Board of Directors. The signature of said officers on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who are or were the proper officers of the Board on the date of adoption of this Order shall be deemed to be duly executed on behalf of the District, notwithstanding that such individuals or either of them shall cease to hold such offices at the time of delivery of the Bonds to the initial purchaser(s) and with respect to Bonds delivered in subsequent exchanges and transfers, all as authorized and provided in Texas Government Code, Chapter 1201, as amended.

No Bond shall be entitled to any right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 10(c), manually executed by the Comptroller of Public Accounts of the State of Texas, or his duly authorized agent, or a certificate of registration substantially in the form provided in Section 10(d), manually executed by an authorized officer, employee or representative of the Paying Agent/Registrar, and either such certificate duly signed upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified, registered and delivered.

SECTION 9: Initial Bond(s). The Bonds herein authorized shall be initially issued either (i) as a single fully registered bond in the total principal amount stated in Section 2 hereof with principal installments to become due and payable as provided in Section 3 hereof and numbered T-1, or (ii) as multiple fully registered bonds, being one bond for each year of maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (hereinafter called the "Initial Bond(s)") and, in either case, the Initial Bond(s) shall be registered in the name of the initial purchaser(s) or the designee thereof. The Initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the initial purchaser(s). Any time after the delivery of the Initial Bond(s), the Paying Agent/Registrar, pursuant to written instructions from the initial purchaser(s), or the designee thereof, shall cancel the Initial Bond(s) delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the initial purchaser(s), or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

SECTION 10: Forms.

(a) **Forms Generally.** The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Registration Certificate of Paying Agent/Registrar, and the form of Assignment to be printed on each of the Bonds, shall be substantially in the forms set forth in this Section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Order and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including insurance legends on insured Bonds and any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the District or determined by the officers executing such Bonds as evidenced by their execution. Any portion of the text of any Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds and the Initial Bond(s) shall be printed, lithographed, or engraved, typewritten, photocopied or otherwise reproduced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution.

(b) Form of Definitive Bonds.

REGISTERED
NO. _____

REGISTERED
PRINCIPAL AMOUNT
\$ _____

UNITED STATES OF AMERICA
STATE OF TEXAS
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
REVENUE BOND, SERIES 2014

Bond Date: _____, 2014 Interest Rate: _____% Stated Maturity: _____, 20____ CUSIP NO: _____ Delivery Date: _____, 2014

Registered Owner: _____

Principal Amount: _____

DOLLARS

The Trophy Club Municipal Utility District No. 1 (hereinafter referred to as the "District"), a body corporate and political subdivision in the Counties of Denton and Tarrant, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay, from the sources described herein, to the Registered Owner named above, or the registered assigns thereof, on the Stated Maturity date specified above (or so much thereof as shall not have been paid upon prior redemption) the Principal Amount hereinabove stated, and to pay interest on the unpaid principal amount hereof from the interest payment date next preceding the "Registration Date" of this Bond appearing below (unless this Bond bears a "Registration Date" as of an interest payment date, in which case it shall bear interest from such date, or unless the "Registration Date" of this Bond is prior to the initial interest payment date in which case it shall bear interest from the Bond Date) at the per annum rate of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on _____ and _____ in each year, commencing _____, 20____. Principal of this Bond is payable at its Stated Maturity or redemption to the registered owner hereof, upon presentation and surrender, at the Designated Payment/Transfer Office of the Paying Agent/Registrar executing the registration certificate appearing hereon, or its successor; provided, however, while this Bond is registered to Cede & Co., the payment of principal upon a partial redemption of the principal amount hereof may be accomplished without presentation and surrender of this Bond. Interest is payable to the registered owner of this Bond (or one or more Predecessor Bonds, as defined in the Order hereinafter referenced) whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the _____ day next preceding each interest payment date, and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. All payments of principal of and interest on this Bond shall be without exchange or collection charges to the owner hereof and in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

This Bond is one of the series specified in its title issued in the aggregate principal amount of \$9,230,000 (herein referred to as the "Bonds") for (i) acquiring, constructing and equipping improvements to the District's wastewater treatment facilities and (ii) paying the costs related to the issuance of the Bonds, under and in strict conformity with the Constitution and laws of the State of Texas, including Texas Water Code, Chapters 49 and 54, as amended, and pursuant to an Order adopted by the Board of Directors of the District (herein referred to as the "Order").

The Bonds maturing on the dates identified below (the "Term Bonds") shall be subject to mandatory redemption prior to maturity with funds on deposit in the Interest and Sinking Fund established and maintained for the payment thereof in the Order, and shall be redeemed in part prior to maturity at the price of par plus accrued interest thereon to the mandatory redemption date on the respective dates and in the principal amounts as follows:

Term Bonds due _____		Term Bonds due _____	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
	\$,000		\$,000
	\$,000		\$,000
	\$,000 (maturity)		\$,000 (maturity)

The particular Term Bonds to be redeemed on each redemption date shall be chosen by lot by the Paying Agent/Registrar; provided, however, that the principal amount of Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like maturity which, at least 50 days prior to the mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions appearing below and not theretofore credited against a mandatory redemption requirement.

The Bonds maturing on and after _____, 20__ may be redeemed prior to their Stated Maturities, at the option of the District, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof (and if within a Stated Maturity by lot by the Paying Agent/Registrar), on _____, 20__ or on any date thereafter at the redemption price of par, together with accrued interest to the date of redemption.

At least thirty (30) days prior to a redemption date, the District shall cause a written notice of such redemption to be sent by United States Mail, first class postage prepaid, to the registered owners of the Bonds to be redeemed in whole or in part, and subject to the terms and provisions relating thereto contained in the Order. If a Bond (or any portion of its principal sum)

shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date such Bond (or the portion of its principal sum to be redeemed) shall become due and payable, and interest thereon shall cease to accrue from and after the redemption date therefor, provided moneys for the payment of the redemption price and the interest on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the satisfaction of such prerequisites and receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not satisfied or sufficient moneys are not received, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

In the event a portion of the principal amount of a Bond is to be redeemed and the registered owner hereof is someone other than Cede & Co., payment of the redemption price of such principal amount shall be made to the registered owner only upon presentation and surrender of this Bond to the Designated Payment/Transfer Office of the Paying Agent/Registrar, and a new Bond or Bonds of like maturity and interest rate in any authorized denominations provided by the Order for the then unredeemed balance of the principal sum thereof will be issued to the registered owner, without charge. If a Bond is selected for redemption, in whole or in part, the District and the Paying Agent/Registrar shall not be required to transfer such Bond to an assignee of the registered owner within 45 days of the redemption date therefor; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the unredeemed balance of a Bond redeemed in part.

The Bonds are special obligations of the District, and, together with the outstanding Existing Obligations (identified and defined in the Order), are payable as to both principal and interest from and secured by a first lien on and pledge of the Net Revenues of the District's water and sewer system (the "System"). The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the District or the System, except with respect to the Net Revenues. The holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

Subject to satisfying the terms and conditions prescribed therefor, the District has reserved the right to issue additional revenue obligations payable from and equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System, in the same manner and to the same extent as the Existing Obligations and the Bonds.

Reference is hereby made to the Order, a copy of which is on file in the Designated Payment/Transfer Office of the Paying Agent/Registrar, and to all of the provisions of which the Holder by the acceptance hereof hereby assents, for definitions of terms; the description of and the nature and extent of the security for the Bonds; the properties constituting the System; the Net Revenues pledged to the payment of the principal of and interest on the Bonds; the nature and extent and manner of enforcement of the lien and pledge securing the payment of the Bonds; the terms and conditions for the issuance of additional revenue obligations; the terms

and conditions relating to the transfer or exchange of this Bond; the conditions upon which the Order may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the District and the Paying Agent/Registrar; the terms and provisions upon which the liens, pledges, charges and covenants made therein may be discharged at or prior to the maturity or redemption of this Bond, and this Bond deemed to be no longer Outstanding thereunder; and for the other terms and provisions contained therein. Capitalized terms used herein have the same meanings assigned in the Order.

This Bond, subject to certain limitations contained in the Order, may be transferred on the Security Register only upon its presentation and surrender at the Designated Payment/Transfer Office of the Paying Agent/Registrar, with the Assignment hereon duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by, the registered owner hereof, or his duly authorized agent. When a transfer on the Security Register occurs, one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued by the Paying Agent/Registrar to the designated transferee or transferees.

The District and the Paying Agent/Registrar, and any agent of either, shall treat the registered owner whose name appears on the Security Register (i) on the Record Date as the owner entitled to payment of interest hereon, (ii) on the date of surrender of this Bond as the owner entitled to payment of principal at the Stated Maturity, or its redemption, in whole or in part, and (iii) on any other date as the owner for all other purposes, and neither the District nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary. In the event of nonpayment of interest on a Bond on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States Mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, recited, represented and declared that the District is a body corporate and political subdivision duly organized and legally existing under and by virtue of the Constitution and laws of the State of Texas; that the issuance of the Bonds is duly authorized by law; that all acts, conditions and things required to exist and be done precedent to and in the issuance of the Bonds to render the same lawful and valid obligations of the District have been properly done, have happened and have been performed in regular and due time, form and manner as required by the Constitution and laws of the State of Texas, and the Order; that the Bonds do not exceed any Constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of the Net Revenues of the System as aforesated. In case any provision in this Bond shall be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Order shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Board of Directors of the District has caused this Bond to be duly executed under the official seal of the District.

TROPHY CLUB MUNICIPAL UTILITY
DISTRICT NO. 1

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(SEAL)

(c) Form of Registration Certificate of Comptroller of Public Accounts to appear on Initial Bond(s) only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER
OF PUBLIC ACCOUNTS
THE STATE OF TEXAS

(
(REGISTER NO. _____
(

I HEREBY CERTIFY that this Bond has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this _____.

Comptroller of Public Accounts
of the State of Texas

(SEAL)

- (d) Form of Certificate of Paying Agent/Registrar to appear on Definitive Bonds only.

REGISTRATION CERTIFICATE OF PAYING AGENT/REGISTRAR

This Bond has been duly issued and registered under the provisions of the within-mentioned Order; the bond or bonds of the above entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

The designated offices of the Paying Agent/Registrar in _____, is the Designated Payment/Transfer Office for this Bond.

as Paying Agent/Registrar

Registration date:

By _____
Authorized Signature

- (e) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto
(Print or typewrite name, address, and zip code of transferee): _____

(Social Security or other identifying number: _____)
_____ the within Bond and all rights thereunder, and hereby
irrevocably constitutes and appoints _____

attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: _____

Signature guaranteed:

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular.

(f) The Initial Bond(s) shall be in the form set forth in paragraph (b) of this Section, except that the form of the single fully registered Initial Bond shall be modified as follows:

REGISTERED
NO. T-1

REGISTERED
PRINCIPAL AMOUNT
\$9,230,000

UNITED STATES OF AMERICA
STATE OF TEXAS
Trophy Club Municipal Utility District No. 1
REVENUE BOND, SERIES 2014

Bond Date:
_____, 2014

Registered Owner:

Principal Amount: NINE MILLION TWO HUNDRED THIRTY THOUSAND DOLLARS

The Trophy Club Municipal Utility District No. 1 (hereinafter referred to as the "District"), a body corporate and political subdivision in the Denton and Tarrant Counties, State of Texas, for value received, acknowledges itself indebted to and hereby promises to pay, from the sources described herein, to the Registered Owner named above, or the registered assigns thereof, the Principal Amount hereinabove stated on _____ 1 in each of the years and in principal installments in accordance with the following schedule:

<u>YEAR OF</u> <u>MATURITY</u>	<u>PRINCIPAL</u> <u>INSTALLMENTS</u>	<u>INTEREST</u> <u>RATE</u>
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(Information to be inserted from schedule in Section 2 hereof).

(or so much principal thereof as shall not have been prepaid prior to maturity) and to pay interest on the unpaid principal installments hereof from the Bond Date at the per annum rates of interest specified above computed on the basis of a 360-day year of twelve 30-day months; such interest being payable on _____ and _____ in each year, commencing _____, 1, 20____. Principal installments of this Bond are payable in the year of maturity or on a redemption date to the registered owner hereof by _____ (the "Paying Agent/Registrar"), upon presentation and surrender, at its designated offices in _____ (the "Designated Payment/Transfer Office"). Interest is payable to the registered owner of this Bond whose name appears on the "Security Register" maintained by the Paying Agent/Registrar at the close of business on the "Record Date", which is the _____ day next preceding each interest payment date, and interest shall be paid by the Paying Agent/Registrar by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner.

SECTION 11: Pledge-Security for the Bonds.

(a) The Parity Revenue Obligations, including the Bonds, and the interest thereon, and any and all other amounts payable thereunder, are and shall be secured by and payable from a first lien on and pledge of the Net Revenues of the System (with the exception of those in excess of the amounts required to establish and maintain the Interest and Sinking Fund hereinafter provided); and the revenues herein pledged are further pledged to the establishment and maintenance of the Interest and Sinking Fund hereinafter provided.

(b) The Bonds are special obligations of the District secured by and payable from a first lien on and pledge of the Net Revenues of the System, as provided in this Order, and is not a charge on the property of the District or on taxes levied by the District. No part of the obligation evidenced by the Bonds, whether principal, interest or other obligation, shall ever be paid from taxes levied or collected by the District.

(c) Chapter 1208, Texas Government Code applies to the issuance of the Bond and the pledge of the Net Revenues granted by the District under Section 11(a) of this Order, and such pledge, therefore, is valid, effective, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the revenues granted by the District under Section 11(a) above is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, then in order to preserve to the registered owners of the Bond the perfection of the security interest in said pledge, the District agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business and Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 12: Funds. The District hereby creates the following special funds or accounts:

(a) Trophy Club Municipal Utility District No. 1, Revenue Bonds, Series 2014, Interest and Sinking Fund (the "Interest and Sinking Fund");

(b) Trophy Club Municipal Utility District No. 1, Revenue Bonds, Series 2014, Reserve Fund (the "Reserve Fund");

(c) Trophy Club Municipal Utility District No. 1, Revenue Bonds, Series 2014, Construction Fund (the "Construction Fund").

SECTION 13: Revenue Fund. A Revenue Fund has previously been established on the books of the District in connection with the District's Revenue Note, Series 2012. All gross revenues of every nature received from the operation and ownership of the System shall be deposited as collected into the Revenue Fund, and the reasonable, necessary, and proper expenses of operation and maintenance of the System shall be paid from the Revenue Fund. The revenues of the System not actually required to pay said expenses shall be deposited from the Revenue Fund into the Interest and Sinking Fund to the extent provided hereunder and to the interest and sinking funds as provided in the orders or resolutions authorizing the Parity Revenue Obligations. However, until the Parity Revenue Obligations are retired, any surplus Net Revenues of the System not required to be deposited in the funds and accounts established by the orders or resolutions authorizing the Parity Revenue Obligations shall be deposited in the Revenue Fund; provided, however, at such time as the Existing Obligations identified in Section

1 hereof are no longer outstanding, the following provision shall be applicable to such excess Net Revenues:

Any Net Revenues remaining in the Revenue Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other District purpose now or hereafter permitted by law.

SECTION 14: Interest and Sinking Fund. (a) Net Revenues of the System shall be deposited to the credit of the Interest and Sinking Fund at such times and in such amounts as necessary for the timely payment of the principal of and interest on the Bonds.

(b) Money on deposit in the Interest and Sinking Fund shall be used to pay the principal of and interest on the Bonds as such become due and payable.

SECTION 15: Reserve Fund. To accumulate and maintain a reserve for the payment of the Bonds and Additional Parity Obligations (the Required Reserve) equal to the lesser of (i) the Average Annual Debt Service Requirements (calculated on a Fiscal Year basis and determined as of the date of issuance of the Bonds, the most recently issued series of Additional Parity Obligations then Outstanding or, at the option of the District, at the end of each Fiscal Year) for the Bonds and Additional Parity Obligations or (ii) the maximum amount in a reasonably required reserve fund for the Bonds and Additional Parity Obligations, from time to time that can be invested without restriction as to yield pursuant to section 148 of the Code (as defined in Section 24), the District agrees to maintain the Reserve Fund at an official depository of the District. All funds deposited into the Reserve Fund (excluding surplus funds which include earnings and income derived or received from deposits or investments which will be transferred to the Revenue Fund during such period as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds and Additional Parity Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last stated maturity or interest on the Bonds or Additional Parity Obligations.

Upon issuance of the Bonds, the total amount required to be accumulated and maintained in the Reserve Fund is hereby determined to be \$_____ (the "Required Reserve"), which is equal to not less than the Average Annual Debt Service for the Bonds, and on or before the 1st day of the month next following the month the Bonds are delivered to the Purchasers and on or before the 1st day of each following month, the District shall cause to be deposited to the Reserve Fund from the Net Revenues of the System an amount equal to at least one-sixtieth (1/60th) of the Required Reserve. After the Required Reserve has been fully accumulated and while the total amount on deposit in the Reserve Fund is in excess of the Required Reserve, no monthly deposits shall be required to be made to the Reserve Fund.

As and when Additional Parity Obligations are delivered or incurred, the Required Reserve shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit of the necessary amount of the proceeds of the issue or other lawfully available funds in the Reserve Fund immediately after the delivery of the then proposed Additional Parity Obligations, or, at the option of the District, by the deposit of monthly installments, made on or before the 1st day of each month following the month of delivery of the then proposed Additional Parity Obligations, of not less than 1/60th of the additional amount to be maintained in the Reserve Fund by reason of the issuance of the Additional Parity Obligations then being issued (or 1/60th of the balance of the additional

amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve.

When and so long as the cash and investments in the Reserve Fund equal the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Parity Obligations as provided in the preceding paragraph), the District covenants and agrees to cure the deficiency in the Required Reserve by resuming monthly deposits to said Fund or account from the Net Revenues, or any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve covenanted by the District to be maintained in the Reserve Fund with any such deficiency payments being made on or before the 1st day of each month until the Required Reserve has been fully restored. The District further covenants and agrees that, subject only to the prior payments to be made to the Interest and Sinking Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Order and any other order or resolution pertaining to the issuance of Additional Parity Obligations.

During such time as the Reserve Fund contains the Required Reserve, the District may, at its option, withdraw all surplus funds in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund, unless such surplus funds represent proceeds of the Bonds, then such surplus will be transferred to the Interest and Sinking Fund.

The District, at its option and consistent with the provisions of this Section, may, to the extent permitted by then-applicable law, fund the Reserve Fund at the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Interest and Sinking Fund are not sufficient to pay the debt service requirements on the Parity Revenue Obligations. All resolutions or orders adopted after the date hereof authorizing the issuance of Additional Parity Obligations shall contain a provision to this effect.

In the event an insurance policy issued to satisfy all or part of the District's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the District may transfer such excess amount to any fund or account established for the payment of or security for the Parity Revenue Obligations (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law.

Notwithstanding anything to the contrary contained in this Section, the requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve shall be suspended for such time as the Net Revenues for each Fiscal Year are equal to at least 110% of the Average Annual Debt Service Requirements. In the event that the Net Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter-specified requirements will commence after such Fiscal Year) of the Average Annual Debt Service Requirements, the District will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the Net Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service Requirements.

SECTION 16: Construction Fund.

(a) Money on deposit in the Construction Fund, including investment earnings thereof, shall be used for the Project.

(b) All amounts remaining in the Construction Fund after the accomplishment of the Project, including investment earnings of the Construction Fund, shall be deposited into the Interest and Sinking Fund, unless a change in applicable law permits or authorizes all or any part of such funds to be used for other purposes.

SECTION 17: Security of Funds – Investments.

(a) All moneys on deposit in the funds referred to in this Order shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and moneys on deposit in such funds shall be used only for the purposes permitted by this Order.

(b) Investments. (i) Money in the funds established by this Order, at the option of the District, may be invested in such securities or obligations as permitted under applicable law.

(ii) Any securities or obligations in which money is so invested shall be kept and held in trust for the benefit of the Owners and shall be sold and the proceeds of sale shall be timely applied to the making of all payments required to be made from the fund from which the investment was made.

(c) Investment Income. Interest and income derived from investment of any fund created by this Order shall be credited to such fund.

SECTION 18: Additional Parity Obligations. In addition to the right to issue obligations of inferior lien as authorized by the laws of this State, the District reserves the right to issue notes, bonds and other obligations which, when duly authorized and issued in compliance with law and the terms and conditions hereinafter appearing, shall be on a parity with the Parity Revenue Obligations, payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System; and the Parity Revenue Obligations shall in all respects be of equal dignity. The Additional Parity Obligations may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(a) A certificate is executed by the District Manager of the District and the President of the Board to the effect that no default exists in connection with any of the covenants or requirements of the Order or orders or resolutions authorizing the issuance of the Bonds and all then outstanding Parity Revenue Obligations;

(b) A certificate is executed by the District Manager of the District and the President of the Board to the effect that the Interest and Sinking Fund and Reserve Fund contains the amount of money then required to be on deposit therein;

(c) A certificate is executed by a Certified Public Accountant to the effect that, in his opinion, the Net Earnings of the System either for the last complete fiscal year of the District, or for any twelve consecutive calendar month period ending not more than 90 days prior to the passage of the Order authorizing the issuance of such Additional Parity Obligations, were at

least 1.25 times the average annual principal and interest requirements for the then outstanding Parity Revenue Obligations and the Additional Parity Obligations then proposed to be issued.

PROVIDED, that the term "Net Earnings of the System" shall mean all of the Net Revenues of the System, except that in calculating Net Revenues there shall not be deducted as an expense of operation and maintenance any charge or disbursement for repairs or extensions which, under standard accounting practice, should be charged to capital expenditures; and PROVIDED FURTHER, that it shall not be necessary for the District to meet the above requirements to issue Additional Parity Obligations if the District obtains the written consent of all of the holders of all outstanding Parity Revenue Obligations.

SECTION 19: Representations and Covenants as to Payment.

(a) While the Bonds are outstanding and unpaid, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund and Reserve Fund, if necessary, money sufficient to pay the interest on and the principal of the Bonds, as applicable, as will accrue or mature on each applicable Interest Payment Date.

(b) The District will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Order and in the Bonds; the District will promptly pay or cause to be paid the principal of, interest on, and premium, if any, with respect to, the Bonds on due dates and at the places and manner prescribed in such Bonds; and the District will, at the times and in the manner prescribed by this Order, deposit or cause to be deposited the amounts of money specified by this Order.

(c) The District is duly authorized under the laws of the State of Texas to issue the Bonds; all action on its part for the creation and issuance of the Bond has been duly and effectively taken; and the Bonds in the hands of the Owners thereof is and will be valid and enforceable obligations of the District in accordance with their terms.

(d) The District will at all times collect for services rendered by the System such amounts as will be at least sufficient to pay all expenses of operation and maintenance, and to provide Net Revenues equal to 1.10 times the amount that is sufficient to pay the scheduled principal of and interest on the Parity Revenue Obligations, plus one times the amount (if any) required to be deposited in any reserve or contingency fund or account created for the payment and security of the Parity Revenue Obligations;

(e) If the System should become legally liable for any other indebtedness, the District shall fix, maintain, charge and collect additional rates and services rendered by the System, sufficient to establish and maintain funds for the payment thereof.

SECTION 20: Default and Remedies.

(a) Events of Default. Each of the following occurrences or events for the purpose of this Order is hereby declared to be an "Event of Default," to-wit:

(i) the failure to make payment of the principal of or interest on the Bonds when the same become due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the District, the failure to perform which materially,

adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with this Order, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the District.

(b) Remedies for Default. (i) Upon the happening of any Event of Default, then and in every case any Owner or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the District for the purpose of protecting and enforcing the rights of the Owners under this Order, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(ii) It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of the Bonds then outstanding.

(c) Remedies Not Exclusive. (i) No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of this Order, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Order.

(ii) The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

SECTION 21: Mutilated, Destroyed, Lost and Stolen Bonds. In case any Bond shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond; and with respect to a lost, destroyed or stolen Bond a replacement Bond may be issued only upon the approval of the District and after (i) the filing by the Holder with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the District and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

Every replacement Bond issued pursuant to this Section shall be a valid and binding obligation, and shall be entitled to all the benefits of this Order equally and ratably with all other Outstanding Bonds; notwithstanding the enforceability of payment by anyone of the destroyed, lost, or stolen Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

SECTION 22: Satisfaction of Obligation of District. If the District shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and

interest on the Bonds, at the times and in the manner stipulated in this Order, then the pledge of taxes levied under this Order and all covenants, agreements, and other obligations of the District to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date therefor. The District covenants that no deposit of moneys or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto.

Any moneys so deposited with the Paying Agent/ Registrar, or an authorized escrow agent, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the District or deposited as directed by the District. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall upon the request of the District be remitted to the District against a written receipt therefor. Notwithstanding the above and foregoing, any remittance of funds from the Paying Agent/Registrar to the District shall be subject to any applicable unclaimed property laws of the State of Texas.

SECTION 23: Order a Contract - Amendments - Outstanding Bonds. This Order shall constitute a contract with the Holders from time to time, be binding on the District, and shall not be amended or repealed by the District so long as any Bond remains Outstanding except as permitted in this Section and in Section 39 hereof. The District may, without the consent of or notice to any Holders, from time to time and at any time, amend this Order in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the District may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Order; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

SECTION 24: Covenants to Maintain Tax-Exempt Status.

(a) Definitions. When used in this Section, the following terms shall have the following meanings:

"Closing Date" means the date on which the Bonds are first authenticated and delivered to the initial purchasers against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

"Computation Date" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Gross Proceeds" means any proceeds as defined in Section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in Section 1.148-1(c) of the Regulations, of the Bonds.

"Investment" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Nonpurpose Investment" means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

"Rebate Amount" has the meaning set forth in Section 1.148-1(b) of the Regulations.

"Regulations" means any proposed, temporary, or final Income Tax Regulations issued pursuant to Sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed, temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

"Yield" of (1) any Investment has the meaning set forth in Section 1.148-5 of the Regulations and (2) the Bonds has the meaning set forth in Section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The District shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which, if made or omitted, respectively, would cause interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the District receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the District shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by section 141 of the Code and the Regulations and rulings thereunder, the District shall at all times prior to the last Stated Maturity of Bonds:

(1) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(2) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the District or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan. Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the District shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be "loaned" to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the District shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment (or use Gross Proceeds to replace money so invested), if as a result of such investment the Yield from the Closing Date of all Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the Yield of the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the District shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The District shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(1) The District shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last Outstanding Bond is discharged. However, to the extent permitted by law, the District may commingle Gross Proceeds of the Bonds with other money of the District, provided that the District separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(2) Not less frequently than each Computation Date, the District shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The District shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(3) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the District shall pay to the United States from the construction fund, other appropriate fund, or if permitted by applicable Texas statute, regulation or opinion of the Attorney General of the State of Texas, the Interest and Sinking Fund, the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(4) The District shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (2) and (3), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the District shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have

resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) Elections. The District hereby directs and authorizes the President of the Board of Directors, District Manager and Director of Finance, individually or jointly, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Certificate as to Tax Exemption or similar or other appropriate certificate, form or document.

SECTION 25: Sale of the Bonds. The Bonds are hereby sold, pursuant to the taking of public bids therefor, on this date, and shall be delivered to [] (the "Purchaser") at a price of par plus a \$[] cash premium plus accrued interest. The Board hereby finds and determines that the net effective interest rate on the Bonds, as calculated pursuant to Texas Government Code, Chapter 1204, as amended is []%. It is hereby officially found, determined and declared that the terms of this sale are the most advantageous reasonably obtainable and the Purchaser's sealed bid produced the lowest net effective interest rate to the District as required by Section 49.183, Texas Water Code. The Initial Bond(s) shall be registered in the name of the Purchaser.

SECTION 26: Official Statement. The use of the Preliminary Official Statement by the Purchaser in connection with the public offering and sale of the Bonds is hereby ratified, confirmed and approved in all respects. The final Official Statement, being a modification and amendment of the Preliminary Official Statement to reflect the terms of sale (together with such changes approved by the President and Secretary of the Board of Directors, the District Manager and the Director of Finance, any one or more of said officials), shall be and is hereby in all respects approved and the Purchaser is hereby authorized to use and distribute said final Official Statement, dated _____, 2014, in the reoffering, sale and delivery of the Bonds to the public. The President and Secretary of the Board of Directors are further authorized and directed to deliver for and on behalf of the District copies of said Preliminary Official Statement and Official Statement in final form as may be required by the Purchaser, and such final Official Statement in the form and content approved by the President or Secretary of the Board, District Manager or Director of Finance (one or more of said officials) shall be deemed to be approved by the Board of Directors and constitute the Official Statement authorized for distribution and use by the Purchaser.

SECTION 27: Control and Custody of Bonds. The President of the Board of Directors of the District shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas, including the printing and supply of definitive Bonds, and shall take and have charge and control of the Initial Bond(s) pending the approval thereof by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery thereof to the Purchasers.

Furthermore, the President and Secretary of the Board of Directors, the District Manager and Director of Finance of the District, any one or more of said officials, are hereby authorized and directed to furnish and execute such documents and certifications relating to the District and the issuance of the Bonds, including certifications as to facts, estimates, circumstances and reasonable expectations pertaining to the use, expenditure and investment of the proceeds of the Bonds, as may be necessary for the approval of the Attorney General, the registration by the Comptroller of Public Accounts and the delivery of the Bonds to the Purchasers and, together with the District's financial advisor, bond counsel and the Paying Agent/Registrar, make the

necessary arrangements for the delivery of the Initial Bond(s) to the Purchaser and the initial exchange thereof for definitive Bonds.

SECTION 28: Proceeds of Sale. The proceeds of sale of the Bonds, less amounts to pay costs of issuance and premium in the amount of \$_____, shall be deposited to the credit of a construction account maintained on the books and records of the District and, if not immediately invested, in a fund kept at a depository bank of the District. Pending expenditure for the Project, such proceeds of sale may be invested in Authorized Investments, including guaranteed investment contracts permitted in Texas Section 2256.015, et seq, and any investment earnings realized may be expended for the Project or deposited in the Interest and Sinking Fund as shall be determined by the Board of Directors. Accrued interest and premium in the above amount received from the sale of the Bonds and any excess bond proceeds, including investment earnings, remaining after completion of all authorized projects or purposes shall be deposited to the credit of the Interest and Sinking Fund.

Pursuant to the Commission Order, the District will not expend \$8,054,771.54 (\$7,004,149.30 for construction plus \$1,050,622.24 in contingencies) for the Project until receipt by the Board of plans and specifications approved by all entities with jurisdiction and construction documents.

SECTION 29: Notices to Holders - Waiver. Wherever this Order provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States Mail, first class postage prepaid, to the address of each Holder appearing in the Security Register at the close of business on the business day next preceding the mailing of such notice.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds. Where this Order provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 30: Cancellation. All Bonds surrendered for payment, redemption, transfer, exchange, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the District, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The District may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the District may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be returned to the District.

SECTION 31: Legal Opinion. The obligation of the Purchaser to accept delivery of the Bonds is subject to being furnished a final opinion of Fulbright & Jaworski LLP, Attorneys, Dallas, Texas, approving such Bonds as to their validity, said opinion to be dated and delivered as of the date of delivery and payment for such Bonds. A true and correct reproduction of said opinion or an executed counterpart thereof is hereby authorized to be either printed on definitive printed obligations or deposited with DTC along with the global certificates for the

implementation and use of the Book Entry Only System used in the settlement and transfer of the Bonds.

SECTION 32: CUSIP Numbers. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof and neither the District nor attorneys approving the Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

SECTION 33: Benefits of Order. Nothing in this Order, expressed or implied, is intended or shall be construed to confer upon any person other than the District, the Paying Agent/Registrar and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Order or any provision hereof, this Order and all its provisions being intended to be and being for the sole and exclusive benefit of the District, the Paying Agent/Registrar and the Holders.

SECTION 34: Inconsistent Provisions. All orders or resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Order are hereby repealed to the extent of such conflict, and the provisions of this Order shall be and remain controlling as to the matters contained herein.

SECTION 35: Governing Law. This Order shall be construed and enforced in accordance with the laws of the State of Texas and the United States of America.

SECTION 36: Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

SECTION 37: Construction of Terms. If appropriate in the context of this Order, words of the singular number shall be considered to include the plural, words of the plural number shall be considered to include the singular, and words of the masculine, feminine or neuter gender shall be considered to include the other genders.

SECTION 38: Severability. If any provision of this Order or the application thereof to any circumstance shall be held to be invalid, the remainder of this Order and the application thereof to other circumstances shall nevertheless be valid, and the Board of Directors hereby declares that this Order would have been enacted without such invalid provision.

SECTION 39: Continuing Disclosure Undertaking.

(a) Definitions. As used in this Section, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time or officially interpreted by the SEC.

"SEC" means the United States Securities and Exchange Commission.

(b) Annual Reports. The District shall provide annually to the MSRB (1) within six months after the end of each fiscal year ending in or after 2014, financial information and

operating data with respect to the District of the general type included in the final Official Statement authorized by Section 26 of this Order, being the information described in **Exhibit B** hereto, and (2) if not provided as part such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be prepared in accordance with the accounting principles described in **Exhibit B** hereto, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not available by the required time, the District will provide unaudited financial information and operating data of the general type included in the Official Statement as Appendix __ by the required time and audited financial statements when and if such audited financial statements become available.

If the District changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section 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 Web site or filed with the SEC.

(c) Notice of Certain Events. The District shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) 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;
- (vii) Modifications to rights of holders of the Bonds, if material;
- (viii) Bond calls, if material, and tender offers;
- (ix) Defeasances;

(x) Release, substitution, or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below;

(xiii) The consummation of a merger, consolidation, or acquisition involving the District 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

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District 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 District, 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 District.

The District shall notify the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with this Section by the time required by this Section.

(d) Filings with the MSRB. All financial information, operating data, financial statements, notices, and other documents provided to the MSRB in accordance with this Section shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(e) Limitations, Disclaimers and Amendments. The District shall be obligated to observe and perform the covenants specified in this Section with respect to the District and the Bonds while, but only while, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give the notice required by subsection (c) hereof of any Bond calls and/or defeasances that cause the District to no longer be such an "obligated person".

The provisions of this Section are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the District or the State of Texas

or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Section shall constitute a breach of or default under this Order for purposes of any other provision of this Order.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

Notwithstanding anything herein to the contrary, the provisions of this Section may be amended by the District from time to time to adapt to changed circumstances resulting from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a Person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. The provisions of this Section may also be amended from time to time or repealed by the District if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the District's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the District so amends the provisions of this Section, it shall include with any amended financial information or operating data next provided in accordance with subsection (b) an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

SECTION 40: Further Procedures. Any one or more of the President, Vice President and Secretary of the Board of Directors, the District Manager and Director of Finance of the District are hereby expressly authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and on behalf of the District all agreements, instruments, certificates or other documents, whether mentioned herein or not, as may be necessary or desirable in order to carry out the terms and provisions of this Order and the issuance of the Bonds. In addition, prior to the initial delivery of the Bonds, the President and Vice President of the Board of Directors, the District Manager, Director of Finance or Bond Counsel to the District are each hereby authorized and directed to approve any changes or corrections to this Order or to any of the documents

authorized and approved by this Order: (i) in order to cure any ambiguity, formal defect, or omission in the Order or such other document; or (ii) as requested by the Attorney General of the State of Texas or his representative to obtain the approval of the Bonds by the Attorney General. In the event that any officer of the District whose signature shall appear on any document shall cease to be such officer before the delivery of such document, such signature nevertheless shall be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

SECTION 41: Incorporation of Findings and Determinations. The findings and determinations of the Board of Directors of the District contained in the preamble hereof are hereby incorporated by reference and made a part of this Order for all purposes as if the same were restated in full in this Section.

SECTION 42: No Recourse Against District Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bond or for any claim based thereon or on this Order against any official of the District or any person executing any Bond.

SECTION 43: Authorization of Escrow Agreement; Payment of TCEQ Fee. The Board hereby finds and determines that it is in the best interest of the District to authorize the execution of an Escrow Agreement to comply with the TCEQ's rules and regulations and other applicable law. A copy of the Escrow Agreement is attached hereto, in substantially final form, as Exhibit C and is incorporated by reference to the provisions of this Order. The President, Vice President and Secretary of the Board, Director Manager or Director of Finance (one or more of said officials), or the designee thereof, are authorized to execute the Escrow Agreement as the act and deed of the District.

SECTION 44: Public Meeting. It is officially found, determined, and declared that the meeting at which this Order is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Order, was given, all as required by Texas Government Code, Chapter 551, as amended, and Texas Water Code, Sections 49.063 and 49.064, as amended.

SECTION 45: Effective Date. This Order shall be in force and effect from and after its passage on the date shown below.

[Remainder of page left blank intentionally]

PASSED AND ADOPTED, this _____, 2014.

TROPHY CLUB MUNICIPAL UTILITY
DISTRICT NO. 1

President, Board of Directors

ATTEST:

Secretary, Board of Directors

(District Seal

EXHIBIT A
PAYING AGENT/REGISTRAR AGREEMENT

EXHIBIT B

DESCRIPTION OF ANNUAL FINANCIAL INFORMATION AND OPERATING DATA

Information and Data

The following information and data with respect to the District referred to in Section 38 of this Order are the quantitative financial information and operating data specified and included in the Appendix or under the headings of the Official Statement referred to below:

1. The financial statements of the District appended to the Official Statement as Appendix ____ for the most recently concluded fiscal year.
2. The information in Tables 1 through ____ in the Official Statement.

Accounting Principles

The accounting principles referred to in such Section with respect to the District are the accounting principles described in the Bonds to the financial statements referred to in paragraph 1 above.

EXHIBIT C
ESCROW AGREEMENT

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EXHIBIT C

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY



AN ORDER APPROVING (1) AN ENGINEERING PROJECT,
(2) THE ISSUANCE OF \$5,765,000 IN UNLIMITED TAX BONDS,
AND (3) THE ISSUANCE OF \$9,230,000 IN REVENUE BONDS FOR
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
OF DENTON AND TARRANT COUNTIES

An application by Trophy Club County Municipal Utility District No. 1 of Denton and Tarrant Counties (hereafter "District") was presented to the Executive Director of the Texas Commission on Environmental Quality (TCEQ) for consideration of approval pursuant to TEX. WATER CODE §§ 5.122 and 49.181. The District requests approval of an engineering project, the issuance of up to \$15,000,000 in bonds to finance improvements to the District's existing wastewater treatment plant. The TCEQ has jurisdiction to consider this matter, and the following Findings of Fact and Conclusions of Law are appropriate after examining the application and supporting documentation.

FINDINGS OF FACT

1. The District filed an application with the TCEQ on September 24, 2013, for approval of a proposed engineering project and the issuance of up to \$15,000,000 in bonds. By Resolution No. 2013-0827A dated August 27, 2013, the District requested to issue up to \$5,769,217 in unlimited tax and/or unlimited tax and revenue bonds and up to \$9,230,783 in revenue bonds, for a total request of \$15,000,000. Application material supports the issuance of \$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds.
2. The Executive Director has investigated the District.
3. The application and accompanying documents have been examined, and a memorandum was prepared on the project dated January 31, 2014, a copy of which is attached and made a part hereof.
4. The District's project and issuance of \$14,995,000 (\$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds) in bonds at a maximum net effective interest rate of 6.23% to finance the project should be approved.
5. The District's board should be directed to ensure that system revenue is adequate to meet operating expenses and debt service requirements on revenue debt.
6. The District should be directed not to expend a total of \$12,991,567 (\$11,297,015 for construction plus \$1,694,552 in contingencies) for the wastewater treatment plant improvements pending District board's receipt of plans and specifications approved by all entities with jurisdiction, as necessary.

7. The District should be advised that the legal, fiscal agent, and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report.

8. The District should be directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to TCEQ rules on surplus funds.

CONCLUSIONS OF LAW

1. The TCEQ has jurisdiction to consider the engineering report and bond application pursuant to TEX. WATER CODE § 49.181.

2. The Executive Director has investigated the District, and the TCEQ has found it legally organized and feasible.

3. The TCEQ's memorandum dated January 31, 2014, on this engineering project and bond issue should be adopted as the written TCEQ project report in compliance with TEX. WATER CODE § 49.181(d).

NOW THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY that the TCEQ's memorandum dated January 31, 2014, on this engineering project and bond issue is adopted as the written TCEQ project report. Pursuant to TEX. WATER CODE § 49.181, the engineering project for Trophy Club Municipal Utility District No. 1 of Denton and Tarrant Counties is hereby approved together with the issuance of \$14,995,000 (\$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds) in bonds at a maximum net effective interest rate of 6.23%. The District's board is directed to ensure that system revenue is adequate to meet operating expenses and debt service requirements on revenue debt. The District is directed not to expend a total of \$12,991,567 (\$11,297,015 for construction plus \$1,694,552 in contingencies) of the bond issue proceeds approved herein for the wastewater treatment plant improvements pending District board's receipt of plans and specifications approved by all entities with jurisdiction, as necessary. The District is advised that the legal, fiscal agent, and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report. The District is directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to TCEQ rules on surplus funds. The approval of the sale of these bonds herein shall be valid for one year from the date of this Order unless extended by written authorization of the TCEQ staff.

BE IT FURTHER ORDERED that pursuant to TEX. WATER CODE § 5.701, the District shall pay to the Commission 0.25% of the principal amount of bonds actually issued not later than the seventh (7th) business day after receipt of the bond proceeds. The fees shall be paid by check payable to the Texas Commission on Environmental Quality.

BE IT FURTHER ORDERED that to enable the TCEQ to carry out the responsibilities imposed by TEX. WATER CODE §§ 49.181-182, the District shall: (1) furnish the Utilities and District's Section copies of all bond issue project construction documentation outlined under 30 TEX. ADMIN. CODE § 293.62, including detailed progress reports and as-built plans required by TEX. WATER CODE § 49.277(b), which have not already been submitted; (2) notify the Utilities and District's Section and obtain approval of the TCEQ for any substantial alterations in the engineering project approved herein before making such alterations; and (3) ensure, as required by TEX. WATER CODE § 49.277(b), that all construction financed with the proceeds from the sale of bonds is completed by the construction contractor according to the plans and specifications contracted.

BE IT FURTHER ORDERED that failure of said District to comply with all applicable laws and with provisions of this Order shall subject the District and its directors to all penalties that are provided by law and shall further be considered by the TCEQ as grounds for refusal to approve other bonds of the District.

The Chief Clerk of the TCEQ is directed to forward the District a copy of this Order.

If any provision, sentence, clause, or phrase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date: **February 6, 2014**


For the Commission

Texas Commission on Environmental Quality

TECHNICAL MEMORANDUM

To: *1/31/14*
Tammy Benter, Manager
Utilities and Districts Section

Date: January 31, 2014

Thru: *not*
Justin P. Taack, Water Supply Division

Subject: Trophy Club Municipal Utility District No. 1 of Denton and Tarrant Counties;
Application for Approval of \$15,000,000 in Unlimited Tax Bonds and Revenue
Bonds, Sixth Issue, 6.23% Net Effective Interest Rate, Series 2014; Pursuant to
Texas Water Code Section 49.181.
TCEQ Internal Control No. D-09242013-030 (TC)
CN: 600678536 RN: 101241248

A. GENERAL INFORMATION

The Texas Commission on Environmental Quality (TCEQ) received an application from Trophy Club Municipal Utility District No. 1 of Denton and Tarrant Counties (the "District") requesting approval for the issuance of \$15,000,000 in bonds to finance improvements to the District's existing wastewater treatment plant. By Resolution No. 2013-0827A dated August 27, 2013, the District requested to issue up to \$5,769,217 in unlimited tax and/or unlimited tax and revenue bonds and up to \$9,230,783 in revenue bonds, for a total request of \$15,000,000. Application material supports the issuance of \$5,765,000 in unlimited tax bonds and \$9,230,000 in revenue bonds.

According to documentation provided, the District currently serves 4,180 equivalent single-family connections (ESFCs) on approximately 2,688 acres.

B. ECONOMIC ANALYSIS

Tax Rate Analysis – Tax/Revenue Supported Debt

The feasibility of this bond issue is based on no-growth to the 4,180 connections as of December 31, 2013. The feasibility of the tax supported debt is based on no-growth to the District's January 1, 2013 certified taxable assessed valuation of \$1,047,277,474 (\$756,915,943 for the portion of the District within Denton County and \$290,361,531 for the portion of the District within Tarrant County). The feasibility of the revenue supported debt is based on revenues earned by the District through services provided to the District's customers. A market study has not been provided, and is not required since the feasibility is based on no-growth.

According to the Denton Central Appraisal District and a Tarrant Appraisal District certificate, the District's January 1, 2013 certified taxable assessed valuation for each respective county is \$756,915,943 and \$290,361,531, or a total of \$1,047,277,474. The annual debt service requirements for the requested bond (tax supported) amount of \$5,765,000 and existing debt averages \$838,789 for the 21-year life of the District's bond debt. According to the engineering report, the District levied a maintenance tax of \$0.01 in 2012 and according to information provided, is projecting to levy the same maintenance tax in the future.