

the Security Register, the Bank will notify the Issuer so that the Issuer may contest the same or such release or disclosure of the contents of the Security Register.

Section 4.05. Return of Cancelled Certificates.

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

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

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

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

Section 4.07. Transaction Information to Issuer.

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

**ARTICLE FIVE
THE BANK**

Section 5.01. Duties of Bank.

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

The Bank is also authorized to transfer funds relating to the closing and initial delivery of the securities in the manner disclosed in the closing memorandum as prepared by the Issuer's Financial Advisor or other agent. The Bank may act on facsimile or e-mail transmission of the closing memorandum acknowledged by the Financial Advisor or the Issuer as the final closing

memorandum. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions.

Section 5.02. Reliance on Documents, Etc.

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

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

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

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

(e) The Bank may consult with legal counsel, and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection with respect to any action taken, suffered, or omitted by it hereunder in good faith and in reliance thereon, provided that any such written advice or opinion is supplied to the Issuer by the Bank.

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

Section 5.03. Recitals of Issuer.

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

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

Section 5.04. May Hold Securities.

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

Section 5.05. Moneys Held by Bank.

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

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

Section 5.06. Indemnification.

To the extent permitted by law, the Issuer agrees to indemnify the Bank for, and hold it harmless against, any loss, liability, or expense incurred without negligence or bad faith on the Bank's part, arising out of or in connection with the Bank's acceptance or administration of its duties hereunder, including the cost and expense incurred by the Bank in defending against any claim or from liability imposed on the Bank in connection with the Bank's exercise or performance of any of its powers or duties under this Agreement.

Section 5.07. Interpleader.

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

Section 5.08. Depository Trust Company Services.

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

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

**ARTICLE SIX
MISCELLANEOUS PROVISIONS**

Section 6.01. Amendment.

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

Section 6.02. Assignment.

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

Section 6.03. Notices.

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

Section 6.04. Effect of Headings.

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

Section 6.05. Successors and Assigns.

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

Section 6.06. Severability.

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

Section 6.07. Benefits of Agreement.

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

Section 6.08. Entire Agreement.

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

Section 6.09. Counterparts.

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

Section 6.10. Termination.

This Agreement will terminate (i) on the date of final payment of the principal of and interest on the Securities to the Holders thereof or (ii) may be earlier terminated by either party upon thirty (30) days written notice; provided, however, an early termination of this Agreement by either party shall not be effective until (a) a successor Paying Agent/Registrar has been appointed by the Issuer and such appointment accepted and (b) notice has been given to the Holders of the Securities of the appointment of a successor Paying Agent/Registrar. Furthermore, the Bank and Issuer mutually agree that the effective date of an early termination of this Agreement shall not occur at any time which would disrupt, delay or otherwise adversely affect the payment of the Securities.

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

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

The resigning Paying Agent/Registrar may petition any court of competent jurisdiction for the appointment of a successor Paying Agent/Registrar if an instrument of acceptance by a

successor Paying Agent/Registrar has not been delivered to the resigning Paying Agent/Registrar within sixty (60) days after giving such notice of resignation.

Section 6.11. Governing Law.

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

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

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

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

By: Erin L. Fitzpatrick
Title: Associate

Mailing Address:

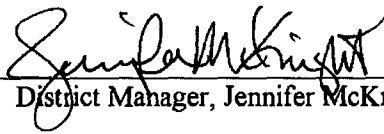
2001 Bryan Street, 9th Floor
Dallas, Texas 75201

Paying Agent/Registrar Agreement
Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013

TCMUD006654

1506

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

By: 
Title: District Manager, Jennifer McKnight

Address:

100 Municipal Drive
Trophy Club, Texas 76262

Paying Agent/Registrar Agreement
Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013

TCMUD006655

1507

SCHEDULE A
Paying Agent/Registrar Fee Schedule

A-1

TCMUD006656

1508



BNY MELLON

Town of Trophy Club Texas Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013

**Fee Schedule
August 23, 2013**

Upon appointment of The Bank of New York Mellon Trust Company, NA ("BNYMTC"), as Registrar and Paying Agent, the obligor shall be responsible for the payment of the fees, expenses and charges as set forth in this Fee Schedule.

Acceptance Fee **None**
A one-time charge covering the Bank Officer's review of governing documents, communication with members of the closing party, including representatives of the issuer, investment banker(s) and attorney(s), establishment of procedures and controls, set-up of trust accounts and tickler suspense items and the receipt and disbursement/investment of bond proceeds. This fee is payable on the closing date.

Annual Paying Agent Administration Fee **\$500**
An annual charge covering the normal paying agent duties related to account administration and bondholder services. Our pricing is based on the assumption that the bonds are DTC-eligible/book-entry only. This fee is payable annually, in advance.

Pricing for Call or Redemptions of Bonds **\$300 Per Call * 2** **\$600**
Call Pricing includes distribution of the call notice to holders of record, redemption processing, and notification to EMMA. Any publication expenses (i.e. Bond Buyer, regional periodical, financial periodicals, etc.) for the call notice will be billed to the Issuer at cost.

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

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

The Bank of New York Mellon Trust Company, N.A

TCMUD006657



BNY MELLON

transaction fees to settle third-party trades and reconciliation fees to balance trust account balances to third-party investment provider statements.

Annual fees include one standard audit confirmation per year without charge. Standard audit confirmations include the final maturity date, principal paid, principal outstanding, interest cycle, interest paid, cash and asset information, interest rate, and asset statement information. Non-standard audit confirmation requests may be assessed an additional fee. FDIC or other governmental charges may be passed along to you as incurred. The obligor shall be responsible for filing any applicable information returns with the U.S. Department of Treasury, Internal Revenue Service in connection with payments made by BNYMTC to vendors who have not performed services for BNYMTC's benefit under the various note issuances or other undertakings contemplated by this fee agreement.

Terms and Disclosures

Terms of Proposal

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

Customer Notice Required by the USA Patriot Act

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

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

We thank you for your assistance.

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

NEW ISSUE-BOOK-ENTRY-ONLY

Ratings: S&P: "_____" (applied for)
(See "RATINGS" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated: July 1, 2013

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

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

\$1,900,000*

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
(A Political Subdivision of the State of Texas Located in Denton and Tarrant Counties, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2013

Dated Date: July 1, 2013

Due: September 1, as shown on Page ii

The Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") is issuing its \$1,900,000* Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds"), which are being issued pursuant to the terms and provisions of an order (the "Bond Order") of the Board of Directors of the District (the "Board") and in accordance with the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). In the Bond Order, as permitted by Chapter 1207, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). (See "THE BONDS - Authority for Issuance" herein.)

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

Interest on the Bonds will accrue from July 1, 2013 (the "Dated Date") and will be payable on March 1 and September 1 of each year, commencing March 1, 2014, until maturity, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued in fully registered form only, without coupons, in denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds until DTC resigns or is discharged. Book-entry interests in the Bonds will be made available for purchase in principal amounts of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of bonds representing their interest in the Bonds purchased. So long as Cede & Co. or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent/registrant to DTC, which will be solely responsible for making such payment to the Beneficial Owners of the Bonds. The initial paying agent/registrant for the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent"). (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds are being used to (i) refund for debt service savings a portion of the District's outstanding unlimited tax debt (the "Refunded Bonds") (see "Schedule I - Schedule of Refunded Bonds" attached hereto) and (ii) pay the costs related to the issuance of the Bonds. (See "PLAN OF FINANCING - Purpose" herein.)

The Bonds are not subject to redemption prior to their stated maturity. (See "THE BONDS - No Redemption" herein.)

STATED MATURITY SCHEDULE

(See Page ii)

The Bonds are offered for delivery, when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or will accompany the Bonds. Certain matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, as counsel to the Underwriter. It is expected that the Bonds will be available for delivery through DTC on or about July 31, 2013.

SAMCO Capital Markets, Inc.

* Preliminary, subject to change.

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

\$1,900,000* Unlimited Tax Refunding Bonds, Series 2013

<u>Stated Maturity Due 9-1</u>	<u>Principal Amount</u>	<u>Initial Rate (%)</u>	<u>Initial Yield (%)</u>	<u>CUSIP Suffix^(a)</u>
2014	\$170,000			
2015	175,000			
2016	175,000			
2017	185,000			
2018	185,000			
2019	195,000			
2020	195,000			
2021	200,000			
2022	210,000			
2023	210,000			

(Interest to accrue from the Dated Date.)

The Bonds are not subject to redemption prior to their stated maturity. (See "THE BONDS – No Redemption" herein.)

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

* Preliminary, subject to change.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

BOARD OF DIRECTORS

<u>Name</u>	<u>Position</u>	<u>Two-Year Term* Expires, May</u>	<u>Occupation</u>
James Moss	President	2016	Retired
William Armstrong	Vice President	2014	Retired
Kevin Carr	Secretary/Treasurer	2014	Self-Employed
James Thomas	Director	2014	Retired
C. Nick Sanders	Director	2016	Business Owner

DISTRICT PERSONNEL AND ADVISORS

District Manager.....	Jennifer McKnight Trophy Club, Texas
Finance Manager.....	Renaé Gonzales Trophy Club, Texas
Financial Analyst / HR Manager.....	Terri Sisk Trophy Club, Texas
Attorneys for the District.....	Bob West Whitaker Chalk Swindle & Schwartz, PLLC Fort Worth, Texas
.....	Pamela Harrell Liston The Liston Law Firm, P.C. Rowlett, Texas
Financial Advisor.....	Southwest Securities San Antonio, Texas
Bond Counsel.....	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Independent Auditors.....	Lafollett and Company PLLC Tom Bean, Texas
Tax Assessor - Collector.....	Denton County, Texas Tarrant County, Texas
Chief Appraiser.....	Denton County, Texas Tarrant County, Texas

For Additional Information Please Contact:

Ms. Jennifer McKnight
District Manager
Trophy Club Municipal Utility District No 1
100 Municipal Drive
Trophy Club, Texas 76262
(682) 831-4610

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

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

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") is a political subdivision of the State of Texas located in Denton and Tarrant Counties, Texas. The District was created as a municipal utility district pursuant to Chapter 54 of the Texas Water Code and is a conservation and reclamation district in accordance with Article XVI, Section 59 of the Texas Constitution. The District has also adopted a fire protection plan under Section 50.055 of the Texas Water Code, now codified as Subchapter L of Chapter 49 of the Texas Water Code, pursuant to the order of the Texas Water Commission of August 22, 1983. In July of 2009, documentation was submitted to the Texas Commission on Environmental Quality ("TCEQ") regarding the consolidation of Trophy Club Municipal Utility District Nos. 1 and 2 pursuant to a May 9, 2009 election. (See "THE DISTRICT" and "APPENDIX B - GENERAL INFORMATION REGARDING THE DISTRICT" herein.)
The Bonds	The Bonds are being issued pursuant to the terms and provisions of an order (the "Bond Order") of the Board of Directors of the District (the "Board") and in accordance with the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"). In the Bond Order, as permitted by Chapter 1207, the District delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to herein as the "Order"). (See "THE BONDS - Authority for Issuance" herein.)
Security for Payment	The Bonds, when issued, will constitute direct and general obligations of the District, payable from the proceeds of an annual ad valorem tax levied against all taxable property located therein, without limitation as to rate or amount. Neither the State of Texas, Denton or Tarrant Counties, Texas, nor any political subdivision or municipality, other than the District shall be obligated to pay the principal of or interest on the Bonds. Neither the faith and credit nor the taxing power of the State of Texas or Denton or Tarrant Counties, Texas, or any political subdivisions or municipality thereof, other than the District, is pledged to the payment of the principal of or interest on the Bonds. (See "THE BONDS - Security for Payment" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
No Optional Redemption	The Bonds are not subject to redemption prior to their stated maturity. (See "THE BONDS - No Redemption" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing law subject to matters discussed herein under "TAX MATTERS", including the alternative minimum tax on corporations. (See "TAX MATTERS" and APPENDIX C - "FORM OF LEGAL OPINION OF BOND COUNSEL" herein.)
Use of Proceeds	Proceeds from the sale of the Bonds are being used to (i) refund for debt service savings a portion of the District's outstanding debt (see "Schedule I - Schedule of Refunded Bonds" attached hereto) and (ii) to pay the costs related to the issuance of the Bonds. (See "PLAN OF FINANCING - Purpose" herein.)
Ratings	The District has made application to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating on the Bonds. The District currently has an underlying rating of "AA-" from S&P. An explanation of the significance of a rating may be obtained from S&P. (See "RATINGS" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment and the method of transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
Future Bond Issues	The District is considering making application to the TCEQ to issue approximately \$5,000,000 in Unlimited Tax Bonds for expansion of the wastewater treatment plant facility. If approved, the District anticipates issuing that debt within the next twelve months. See "INVESTMENT CONSIDERATIONS - Future Debt" herein.
Payment Record	The Issuer has never defaulted on the timely payment of principal of or interest on its general obligation indebtedness.
Delivery	When issued, anticipated on or about July 31, 2013.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas.

SELECTED FINANCIAL INFORMATION

2012 Certified Net Taxable Assessed Valuation (ARB Approved)		\$993,598,863	(*)
Gross Debt Principal Outstanding (after issuance of the Bonds and excluding the Refunded Bonds)		\$6,545,000	*
Ratio of Gross Debt Principal to 2012 Taxable Assessed Valuation		0.66%	*
Debt Service Fund Balance as of May 31, 2013 (unaudited)		\$691,002	
2012-2013 Tax Rate			
Operations	\$0.00989		
Fire Protection	0.10400		
Debt Service	<u>0.01950</u>		
	Total	\$0.13339	
Average Percentage of Total Tax Collections – Tax Years 2006-2012		100.09%	(D)
Projected Average Annual Debt Service Requirement (2013-2031) Of the Bonds and the Outstanding Bonds ("Projected Average Requirement")		\$433,055	*
Tax Rate Required to Pay Projected Average Annual Requirement Based Upon Current Net Taxable Assessed Valuations at 99% Collections		\$0.04402/\$100	A.V. *
Projected Maximum Annual Debt Service Requirement (2013) of the Bonds and The Outstanding Bonds ("Projected Maximum Requirement")		\$795,213	*
Tax Rate Required to Pay Projected Maximum Annual Requirement Based Upon Current Net Taxable Assessed Valuations at 99% collections		\$0.08084/\$100	A.V. *
Estimated 2013 population		10,060	

(*) 2012 Net Taxable Valuation does not include property under protest or values for incomplete accounts. (See "TAXING PROCEDURES" herein.)

(D) Historical tax collection information for Tax Years 2007-2008 represents the combined totals from two separate entities (Trophy Club MUD No 1 and Trophy Club MUD No 2)
* Preliminary, subject to change.

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PRELIMINARY OFFICIAL STATEMENT
relating to

\$1,900,000*

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

UNLIMITED TAX REFUNDING BONDS, SERIES 2013

INTRODUCTION

This Preliminary Official Statement provides certain information in connection with the issuance by the Trophy Club Municipal Utility District No. 1 (the "District" or "Issuer") of its \$1,900,000* Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds").

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

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

This Official Statement speaks only as to its date. The information contained herein is subject to change. Copies of each of the Final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the District's undertaking to provide certain information on a continuing basis.

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

PLAN OF FINANCING

Purpose

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

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds, and interest due thereon, are to be paid on September 1, 2013* (the "Redemption Date"), from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Escrow Agent") or its successor. The Order approves and authorizes the execution of an escrow agreement (the "Escrow Agreement") between the District and the Escrow Agent. The Order provides that, from the proceeds of the sale of the Bonds received from the Underwriter, the District will deposit the amount necessary, together with other available funds, if any, to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Such funds will be held uninvested by the Escrow Agent pending their disbursement to redeem the Refunded Bonds on the Redemption Date. The Escrow Agent, as the paying agent for the Refunded Bonds, will determine and certify at the time of delivery of the Bonds that the amounts deposited to the Escrow Fund will equal an amount sufficient to pay, on the scheduled redemption date, the principal of and interest on the Refunded Bonds. **Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations and amounts therein will not be available to pay the Bonds.**

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

* Preliminary, subject to change.

SOURCES AND USES OF FUNDS

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

Sources of Funds

Par Amount of Bonds	_____
Accrued Interest	_____
Original Issue Premium	_____
Issuer's Contribution from Debt Service Fund	_____
Total Sources of Funds	_____

Uses of Funds

Cash Deposit to Escrow Fund	_____
Cost of Issuance	_____
Underwriter's Discount	_____
Accrued Interest Deposit to Debt Service Fund	_____
Additional Proceeds Deposit to the Debt Service Fund	_____
Total Uses of Funds	_____

THE BONDS

General Description

The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The Bonds shall bear interest from the July 1, 2013 (the "Dated Date") on the unpaid principal amounts, and the amount of interest to be paid each payment period shall be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds will be payable on March 1 and September 1 of each year commencing March 1, 2014, until maturity. Principal of the Bonds is payable at the designated offices of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. Interest on the Bonds shall be paid to the registered owners whose names appear on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (as hereinafter defined) and shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the Security Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to be closed, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Authority for Issuance

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

Security for Payment

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

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

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

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

Payment Record

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

Flow of Funds and Investment of Funds

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

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

No Redemption

The Bonds are not subject to redemption prior to their stated maturity.

Termination of Book-Entry-Only System

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

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

Registration: The Bonds may be transferred and re-registered on the registration books of the Paying Agent only upon presentation and surrender thereof to the Paying Agent/Registrar at the Designated Payment/Transfer Office. A Bond also may be exchanged for a Bond or Bonds of like maturity and interest and having a like aggregate principal amount, upon presentation and surrender at the Designated Payment/Transfer Office. All Bonds surrendered for transfer or exchange must be endorsed for assignment by the execution by the registered owner or his duly authorized agent of an assignment form on the Bonds or other instruction of transfer acceptable to the Paying Agent. Transfer and exchange of Bonds will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such transfer or exchange. A new Bond or Bonds, in lieu of the Bond being transferred or exchanged, will be delivered by the Paying Agent/Registrar to the registered owner, at the Designated Payment/Transfer Office of the Paying Agent/Registrar or by United States mail, first-class, postage prepaid. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner not more than three

(3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the denominations of \$5,000 or any integral multiple thereof. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be initially utilized in regard to ownership and transferability of the Bonds.)

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

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

Defeasance of Outstanding Bonds

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

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to take any action amending the terms of the Bonds are extinguished.

Paying Agent/Registrar

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

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

Record Date

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

Issuance of Additional Debt

The District may issue bonds necessary to construct waterworks and sewer system improvements and facilities for which the District was created and to provide fire protection to the District, with the approval of the District's voters. Following the issuance of the Bonds, \$5,769,217 unlimited tax bonds authorized by the District's voters will remain unissued. The District is considering making application to the Texas Commission on Environmental Quality ("TCEQ") to issue approximately \$5,000,000 in Unlimited Tax Bonds for the expansion of the wastewater treatment plant facility. If approved, the District anticipates issuing that debt within the next twelve months. In addition, voters may authorize the issuance of additional bonds or other contractual obligations secured by ad valorem taxes. Neither Texas law nor the Order imposes a limitation on the amount of additional debt which may be issued by the District. Any additional debt issued by the District may dilute the security of the Bonds. (See "INVESTMENT CONSIDERATIONS" herein.) The District may also issue bonds secured by revenues of the water and sewer system or other revenues of the District (other than ad valorem tax revenues) without voter approval.

Specific Tax Covenants

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

Additional Covenants

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

Remedies in Event of Default

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

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

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

Amendments to the Order

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

RATINGS

In connection with the sale of the Bonds, The District has made application to Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") for a municipal bond rating on the Bonds. The District currently has an underlying rating of "AA-" from S&P. An explanation of the significance of a rating may be obtained from S&P. The rating reflects only the respective view of such companies, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by any such rating company, if, in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

INVESTMENT CONSIDERATIONS

General

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

Approval of the Bonds

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

Factors Affecting Taxable Values and Tax Payments

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

Impact on District Tax Rates: Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their taxes. The 2012 certified net taxable assessed valuation (ARB Approved) of the District (see page vii "SELECTED FINANCIAL INFORMATION") as \$993,598,863. After issuance of the Bonds and excluding the Refunded Bonds the projected maximum annual debt service requirement will be \$795,213* (2013) and the projected average annual debt service requirement will be \$433,055* (2013 through 2031, inclusive). Assuming no increase or decrease from the 2012 net taxable assessed valuation and no use of funds on hand, a tax rate of \$0.08084* per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected maximum annual debt service requirement of \$795,213* and a tax rate of \$0.04402* per \$100 assessed valuation at a 99% collection rate would be necessary to pay the projected average annual debt service requirement of \$433,055*. After a transfer of \$308,000, representing Fire Department rental income, the District's 2012 debt service tax rate is \$0.01950 per \$100 assessed valuation. (See "APPENDIX A – TABLES 4, 5 and 6" herein.

Tax Collections and Foreclosure Remedies

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

Consolidation

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

Abolition

Under Texas law, if a municipal utility district is located wholly in two or more municipalities, the district may be abolished by agreement among the district and all of the municipalities in which parts of the district are located. The abolition agreement must provide for the distribution among the municipalities of the property and other assets of the district and for the pro rata assumption by the municipalities of all the debts, liabilities, and obligations of the abolished district. When the pro rata share of any district bonds or other obligations payable in whole or in part from property taxes has been assumed by the municipality, the governing body of the municipality is required to levy and collect taxes on all taxable property in the municipality to pay the principal of and interest on its share as the principal and interest become due and payable.

* Preliminary, subject to change

If the abolished municipal utility district has outstanding bonds or other obligations payable in whole or in part from the net revenue from the operation of the district utility system or property, the affected municipalities are required take over and operate the system or property through a board of trustees. The municipalities are required to apply the net revenue from the operation of the system or property to the payment of outstanding revenue bonds or other obligations as if the district had not been abolished. The system or property is required to be operated in that manner until all the revenue bonds or obligations are retired in full by payment or by the refunding of the bonds or other obligations into municipal obligations. When all the revenue bonds and other obligations are retired in full, the property and other assets of the district are distributed among the municipalities as described above. On the distribution, the board of trustees is dissolved.

The District is located wholly within the municipalities of the Town of Westlake and the Town of Trophy Club. The Town of Trophy Club has recently proposed that it, the Town of Westlake and the District enter into an agreement to abolish the District with the District's assets and liabilities assumed by the two municipalities. The Board of Directors of the District has rejected that proposal and stated that the District currently intends to continue to operate as a municipal utility district. As described above, the District would have to separately agree to any abolition of the District. No representation is made concerning the ability of the Town of Trophy Club and the Town of Westlake to make debt service payments on the Bonds should abolition occur at some point in the future.

Alteration of Boundaries

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

Registered Owners' Remedies

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the covenants contained in the Bonds or in the Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles and rests with the discretion of the court. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Toake v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Therefore, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

Bankruptcy Limitation to Registered Owners' Rights

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

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

A district may not be forced into bankruptcy involuntarily.

The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District

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

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

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

Continuing Compliance with Certain Covenants

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

Future Debt

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

The District is considering making application to the Texas Commission on Environmental Quality ("TCEQ") to issue approximately \$5,000,000 in Unlimited Tax Bonds for expansion of the wastewater treatment plant facility. If approved, the District anticipates issuing that debt within the next twelve months.

Future and Proposed Legislation

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

THE DISTRICT

Creation of the District

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

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

Governance

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

Employees

The District has seventeen (17) full-time employees for water and wastewater services. The District is required to pay 50% of the costs incurred by the Town (hereinafter defined) for salary, benefits and other compensation of employees who provide firefighting and emergency medical services to both the District and the Town. The District's liabilities under the Agreement for Fire Personnel, including pension benefits, do not have a substantial impact on the District's finances.

General

The District is comprised of 2,283.5 acres [approximately 449.9 acres in Town of Westlake (Solana)]. Approximately 166 acres in the Town of Trophy Club are undeveloped. Of the developed acres, there are approximately 2,700 existing households, 136 apartment units and 42 townhouses.

Location

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

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

Population

The population of the District is estimated to be approximately 7,940 and the population of the entire Town of Trophy Club, the District and the Trophy Club PID No. 1 (the "Trophy Club Development") is estimated at 10,060 (as of May 31, 2013 per North Central Texas Council of Governments).

Topography and Drainage

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

Shopping and Commercial Facilities

A shopping center within the District has a major grocery store chain, a bank, a major chain drug store, several service businesses, fast food outlets, a beauty shop and a dry cleaners. Additionally there are several more businesses and professional offices located in the District, at the primary entrance to the Town of Trophy Club. There are additional shopping

facilities in Roanoke, about two (2) miles west of the District and numerous shopping facilities in Southlake about five (5) miles east of the District and in Grapevine about eleven (11) miles east of the District. Full metropolitan shopping facilities are available in Dallas and Fort Worth, Texas which have their central business districts approximately 27 miles and 25 miles, respectively from the District.

Fire Protection

The District operates its Fire Department (the "Department") with an engine, a Quint, a brush truck and two support vehicles. Currently the Department is staffed with thirteen (13) full-time firefighter / paramedics and one full-time Fire Chief. Operations under the Department include fire suppression, fire prevention, emergency management, investigation/enforcement and emergency medical response. The new \$3.1 million fire station was completed and equipped in August 2011 with proceeds from the sale of the District's Series 2010 Bonds, replacing the previously existing facility. This Department serves the Town of Trophy Club and area in the District that is not in the Town limits, and is currently financed by a combination of a \$0.104 maintenance tax assessment in the District, as well as a \$0.104 Public Improvement District ("PID") assessment in Trophy Club PID No. 1. The 2012-2013 annual operating budget is \$1,341,471 with October 1, 2012 reserves of \$350,496.

Police Protection

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

Schools

The Town is served by the Northwest Independent School District (the "School District" or "Northwest ISD"). Northwest ISD covers approximately 232 square miles in Denton, Wise and Tarrant Counties. In addition to serving the Town, the School District also serves the communities of Aurora, Fairview, Haslet, Justin, Newark, Northlake, Rhome, Roanoke and portions of Flower Mound, Fort Worth, Keller, Southlake and Westlake. Northwest ISD is comprised of 16 primary schools for grades pre-kindergarten through fifth, 5 middle schools for grades sixth through eighth, 3 high schools for grades ninth through twelfth, and 2 alternative education campuses for grades seventh through twelfth. One of the high schools, Byron Nelson High School, is located in the Town of Trophy Club. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level, and all are equipped with computers and full cafeteria service. The School District serves a 2012-2013 estimated enrollment of 17,791 students (as of May 31, 2013).

Recreational Opportunities

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

Status of Development of the District

The area in the District is locally known as "Trophy Club." It is a residential and mixed-use development consisting of approximately 2,283.5 acres. The District is a mature district with roughly 166 acres undeveloped, of which 135 acres are zoned residential and approximately 60 acres are available for commercial development. The majority of the 135 acres zoned residential is located in the Canterbury Hills addition, which will begin construction in the near future. There is substantial land left for commercial development in the Solana complex, which is located within the Town of Westlake.

Lot and custom home sales officially began in the District in mid-year 1975. Homes are currently being offered at prices ranging from \$200,000 to \$1,000,000 and lots range in price from \$35,000 to \$200,000. The status of single-family home development as of May 31, 2013 is shown below:

Status of Single-Family Home Development

<u>Houses Under Construction</u>	<u>Houses Occupied</u>	<u>Total Houses</u>	<u>Additional Developed Lots</u>	<u>Total Houses and Lots</u>	<u>Multi-Family Units Completed ^(a)</u>
127	3,611	3,738	180	3,918	178

^(a) In addition to the single-family development, there are approximately 136 apartments and 42 completed townhouses, which are occupied.

Status of Business / Commercial Development

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

Maguire Thomas Partners or affiliated entities or their successors ("Maguire") currently (as of 1/1/2013 Tarrant Appraisal District records) own the Solana business complex, which is the top principal taxpayer in the District (see APPENDIX A "Table 11 - Principal Taxpayers 2012-2013"). On November 16, 2011, a State district judge in Tarrant County appointed a receiver to take control of Solana. According to court filings, the receiver will operate Solana, take all necessary actions to preserve the income and value of the property, and market the property for sale. Recent news from STAR-TELEGRAM BUSINESS INSIDER (May 8 and May 30, 2013) indicates that portions of the Maguire tracts in Solana are expected to be developed in the near future, pursuant to zoning changes approved in 2013 by the Town of Westlake for a mixed-use development and a high-end residential development, and also that other portions of the Solana Business Park have either been sold or are under contract. The District expects an increase in taxes and water and sewer revenues from these sales and new developments. Solana has paid its 2012 taxes to the District and the District does not expect them to become delinquent in the future. The District cannot predict the impact any future events may have on the District's financial condition.

Public Improvement District Description

Trophy Club PID No. 1 (the "PID") consists of approximately 609.683 acres of land generally to the north of Oakmont Drive, Oak Hill Drive and the Quorum Condominiums, east of the Lakes Subdivision and Parkview Drive, south of the Corps of Engineer's property, and west of the Town's eastern limit. The PID is located entirely within the Town limits but outside the District. A master-planned residential community (the "Property") is under construction in the PID and at build-out will be comprised of approximately 1,489 residential units located within the Property, which Property is zoned to permit such use pursuant to the PID Zoning. As of May 31, 2013, 911 homes have been completed and are occupied and an additional 112 homes have been permitted and are currently under construction. The PID is projected to build out as early as 2017. The District provides emergency and fire protection services to the PID, and the PID pays the District an assessment for such services at the current fire tax rate of \$0.104. The District also provides water and sewer service for the PID. The total billed for PID water and sewer for fiscal year 2011-2012 was \$896,202.

THE DISTRICT'S SYSTEM

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

Description of the Water System

Sources of Water Supply The present water supply is provided from two sources: (i) four ground wells which provide approximately 1,000,000 gallons per day, and (ii) a 21-inch water line which is capable of delivering 10,000,000 gallons per day of treated water from the City of Fort Worth facilities. Currently the District has a contract with the City of Fort Worth, which expires September 30, 2031, for unlimited water services. Current maximum usage is approximately 6,500,000 gallons per day (of which 4,500,000 is Fort Worth water). These sources, when combined, provide water which complies with the quality requirements of the TCEQ and needs only chlorination at the District's water plant facility.

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

Description of the Wastewater System

Wastewater Treatment Plant Facility The wastewater treatment plant system has a permitted treatment/discharge capacity of 1,750,000 gallons per day from the TCEQ under TPDES Permit No. 11593-001. Although the permit authorizes the discharge of wastewater to the adjacent tributary leading to Lake Grapevine, the plant effluent is currently pumped to various holding ponds within the community of Trophy Club and is re-used for irrigating the golf course. The District is considering making application to the Texas Commission on Environmental Quality ("TCEQ") to issue approximately \$5,000,000 in Unlimited Tax Bonds for expansion of the wastewater treatment plant facility. If approved, the District anticipates issuing that debt within the next twelve months.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT

Available District funds are invested as authorized by Texas law and in accordance with investment policies approved by the Board of Directors. Both State law and the District's investment policies are subject to change. Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or

backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for District deposits; or (ii) where (a) the funds are invested by the District through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the District as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257 041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and, (13) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

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

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

Current Investments

As of May 31, 2013 the District's funds were invested in the District's bank accounts and TexPool as shown in the table that follows. The District does not currently own, nor does it anticipate the inclusion of long-term securities or derivative products in its portfolio

<u>Fund and Investment Type</u>	<u>Amount</u>
TexPool – Operating Fund	\$3,271,967
TexPool - Interest and Sinking Fund	685,963
TexPool - Capital Projects Fund	395,806
First Financial Bank Interest Bearing Account – Operating Fund -	620,463
Prosperity Bank, Roanoke Texas - Certificate of Deposit	200,000
Bank of the West, Grapevine Texas - Certificate of Deposit	<u>120,000</u>
Total Investments	<u>\$5,294,199</u>

TAX DATA

District Bond Tax Rate Limitation

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

Maintenance and Operations Tax

The Board is also authorized to levy and collect an annual ad valorem tax for planning, constructing, acquiring, or maintaining or repairing or operating the District's improvements and facilities, if such maintenance and operations tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds which may be issued in the future. As shown in APPENDIX A, TABLE 13 - "TAX RATE DISTRIBUTION," the District levied a 2012-2013 maintenance and operations tax for fire protection purposes of \$.10400/\$100 assessed valuation and \$.00989/\$100 assessed valuation for all other operations and maintenance purposes.

Overlapping Taxes

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The statement of direct and estimated overlapping ad valorem tax debt shown in APPENDIX A – TABLE 14 (page A-7) was developed from several sources, including information contained in "Texas Municipal Reports," published by the Municipal Advisory Council of Texas. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes of debt service and the tax burden for operation, maintenance and/or general purposes is not included in these figures. (See APPENDIX A – TABLES 14, 15 & 17 for information on overlapping taxing entities.)

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within the county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The board of directors of the appraisal district selects a chief appraiser to manage the appraisal offices of the appraisal district. The Denton Central Appraisal District and the Tarrant Appraisal District have the responsibility for appraising property for all taxing units within Denton and Tarrant Counties, including the District. Such appraisal values are subject to review and change by the appraisal review boards of each county. The appraisal roll as approved by the appraisal review boards must be used by the District in establishing its tax roll and tax rate.

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

Freeport Exemption: Article VIII, Section 1-j of the Texas Constitution authorizing an ad valorem tax exemption for "freeport property" was approved November 7, 1989. Freeport property is goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. **The District does grant this exemption but currently has no freeport property within its boundaries.**

Goods in Transit: "Goods in Transit", which are certain goods, principally inventory, that are stored, for the purposes of assembling, storing, manufacturing, processing or fabricating the goods, in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days; a taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action prior to January 1 of the first tax year in which the governing body proposes to tax good-in-transit to continue its taxation of good-in-transit in the 2012 tax year and beyond. **The District does not exempt Goods in Transit.**

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

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

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

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

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

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

Tax Abatement: Denton County, Tarrant County or the Town of Trophy Club may designate all or part of the area within the District as a reinvestment zone. Thereafter, the District may enter into tax abatement agreements with owners of real property within the District for up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. **A portion of the District is included in reinvestment zones designated by the Town of Trophy Club, for tax abatement purposes. The District IS NOT a participant in the Tax Abatement Reinvestment Zone agreement.**

Tax Increment Reinvestment (Financing) Zones

A city may create one or more tax increment reinvestment zones ("TIRZs" or "TIFs") within the city, and in doing so, other overlapping taxing entities may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for public improvements or projects within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value of taxable real property in the TIRZ is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion (as determined by the city) of the taxes levied by the city against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of the city.

Valuation of Property for Taxation

Generally, all taxable property in the District must be appraised by the Denton Central Appraisal District and the Tarrant Appraisal District (collectively, the "Appraisal District") at one hundred percent (100%) of market value as of January 1 of each year, subject to review and approval by the Appraisal Review Board. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal. The method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of

the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

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

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

Notice and Hearing Procedures

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

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

District and Taxpayer Remedies

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

Levy and Collection of Taxes

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

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

Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. The date of the delinquency may be postponed if the tax bills are mailed after January 10 of any year. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, one percent (1%) for each month thereafter to July 1, and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, where a district engages an attorney for collection of delinquent taxes, the Board may impose a further penalty not to

exceed twenty percent 20% on all taxes unpaid on July 1. The District may be prohibited from collection of penalties and interest on real property owned by the Federal Depository Insurance Corporation. **The District has engaged a delinquent tax attorney and has imposed such a penalty when necessary.**

District's Rights in the Event of Tax Delinquencies

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

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

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

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

Collateral Federal Income Tax Consequences

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

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

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated

redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The Issuer will provide certain updated financial information and operating data to the MSRB. The District will provide all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement. The information to be updated includes Tables 1, 12 and 13 of Appendix A, and the annual audited financial statements of the District. The Issuer will update and provide this information within six months after the end of each fiscal year ending in and after 2013.

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

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

Notice of Certain Events

The Issuer will also provide timely notices of certain events to the MSRB. The Issuer will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws

on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances, (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Issuer, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the Issuer will provide timely notice of any failure by the Issuer to provide annual financial information or operating data in accordance with their agreement described above under "Annual Reports". Neither the Order nor the Bonds make any provision for debt service reserves, redemption provisions, credit enhancement, or liquidity enhancement

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

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

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

OTHER PERTINENT INFORMATION

Legal Matters

The delivery of the Bonds is subject to the receipt of an approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative

minimum tax on corporations." The form of Bond Counsel's opinion is attached hereto as Appendix C. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

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

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

Registration and Qualification of Bonds for Sale

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

Litigation

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are real and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, obligations such as the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their fair market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

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

Underwriting

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

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

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

Financial Advisor

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

Forward-Looking Statements Disclaimer

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

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

Concluding Statement

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

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

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

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

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

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

Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003
(Redemption Date: 9-1-13 @ par plus accrued interest to the Redemption Date)

<u>Original Dated Date</u>	<u>Original Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Amount to be Refunded</u>	<u>Interest Rates</u>
July 1, 2003	2014	\$ 60,000	\$ 60,000 ^(a)	3.90%
	2015	60,000	60,000 ^(a)	3.90%
	2016	65,000	65,000 ^(b)	4.00%
	2017	70,000	70,000 ^(b)	4.00%
	2018	70,000	70,000 ^(c)	4.25%
	2019	75,000	75,000 ^(c)	4.25%
	2020	75,000	75,000 ^(c)	4.25%
	2021	80,000	80,000 ^(d)	4.00%
	2022	85,000	85,000 ^(d)	4.00%
	2023	<u>85,000</u>	<u>85,000</u> ^(d)	4.00%
		<u>\$ 725,000</u>	<u>\$ 725,000</u>	

Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2005
(Redemption Date: 9-1-13 @ par plus accrued interest to the Redemption Date)

<u>Original Dated Date</u>	<u>Original Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Amount to be Refunded</u>	<u>Interest Rates</u>
June 1, 2005	2014	\$ 100,000	\$ 100,000	4.00%
	2015	105,000	105,000	4.00%
	2016	105,000	105,000	4.00%
	2017	110,000	110,000	4.00%
	2018	115,000	115,000	4.00%
	2019	120,000	120,000 ^(e)	4.00%
	2020	125,000	125,000 ^(e)	4.00%
	2021	130,000	130,000 ^(f)	4.20%
	2022	135,000	135,000 ^(f)	4.20%
	2023	<u>140,000</u>	<u>140,000</u> ^(f)	4.20%
		<u>\$ 1,185,000</u>	<u>\$ 1,185,000</u>	
Total Refunded Bonds			<u>\$ 1,910,000</u>	

^(a) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2015.

^(b) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2017.

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

^(d) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2023.

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

^(f) Represents a portion of a sinking fund redemption of a term bond that matures September 1, 2023.

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APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

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

FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2012 Actual Market Value of Taxable Property (100% of Actual) ^(a)		\$ 1,066,995,682
Less Exemptions:		
Local Optional Over-65	\$14,745,603	
Disabled and Deceased Veterans ¹	3,118,815	
Agricultural Productivity Loss	3,296,413	
Freeport	-	
10% Homestead Cap Value Loss	2,224,166	
Total Exempt Property	23,398,421	
Partial Exempt Property	<u>4,406</u>	<u>46,787,824</u>
2012 Certified Net Taxable Assessed Valuation ^(b)		<u>\$ 1,020,207,858</u> ^(b)
Less: Taxable Value of Accounts Incomplete/Under Review		<u>\$ (26,608,995)</u>
2012 Certified Net Taxable ARB Approved Assessed Valuation		<u>\$ 993,598,863</u>

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

^(b) Includes taxable value of incomplete accounts and accounts under ARB Review.

Note: The District has received preliminary 2013 Net Taxable Valuations (ARB Approved) from the Denton and Tarrant Appraisal District's that total \$1,047,123,588.

Sources: Denton Central Appraisal District and Tarrant Appraisal District

GENERAL OBLIGATION BONDED DEBT

TABLE 2

General Obligation Debt Principal Outstanding (As of June 1, 2013):		
Unlimited Tax Bonds, Series 2003 (Excludes the Refunded Bonds)		\$ 60,000
Unlimited Tax Refunding Bonds, Series 2005 (Excludes the Refunded Bonds)		295,000
Unlimited Tax Bonds, Series 2010		1,935,000
Unlimited Tax Refunding Bonds, Series 2012		<u>2,355,000</u>
Total General Obligation Debt Principal Outstanding		\$ 4,645,000
Current Issue General Obligation Debt Principal		
Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds")		<u>\$ 1,900,000</u> *
Total General Obligation Debt Principal Outstanding		
(Following the Issuance of the Bonds and excluding the Refunded Bonds)		<u>\$ 6,545,000</u> *
Interest and Sinking Fund Balance as of May 31, 2013 (unaudited)		\$ 691,002 *
Ratio of General Obligation Debt Principal to 2011 2012 Certified Net Taxable ARB Approved Assessed Valuation		0.66% *
2012 Certified Net Taxable ARB Approved Assessed Valuation ^(a)		\$ 993,598,863
Population Estimates. 2000 - 6,350; 2010 - 8,042, Current 2013 (Estimate) -		10,060
Per Capita 2012 Certified Net Taxable ARB Approved Assessed Valuation -	\$	98,767
Per Capita General Obligation Debt Principal -	-\$	651 *

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

* Preliminary, subject to change.

OTHER OBLIGATIONS

TABLE 3

<u>Description</u>	<u>Year of Issue</u>	<u>Interest Rate Payable</u>	<u>Final Maturity</u>	<u>Average Annual Payment</u>	<u>Original Amount</u>	<u>Principal Outstanding as of 9-30-12</u>
Public Property Finance Contractual Obligations:						
Improvements	2004	3.50%	2012	\$ 39,000	\$ 270,000	\$ -
Fire Truck	2007	4.33%	2014	56,000	448,000	137,000
Improvements	2009	3.90%	2012	110,000	330,000	-
						<u>\$ 137,000</u>
Notes Payable:						
Equipment	1999	2.50%	2018	\$ 2,245	\$ 35,000	\$ -
Equipment	2010	3.90%	2015	201,318	179,955	107,973
Ground Storage	2012	2.87%	2014	383,140	1,100,000	733,000
						<u>\$ 840,973</u>
Contractual Obligations:						
Capital Projects	2013	1.85%	2016	\$ 153,588	\$ 445,000	\$ 445,000 ^(a)
Revenue Debt Payable:						
Water Storage Improvements	2012	2.87%	2014	\$ 383,709	\$ 1,100,000	<u>\$ 733,000</u>
						<u>\$ 2,155,973</u>

^(a) Outstanding as of May 31, 2013

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 4

Fiscal Year Sept 30	Current Total Debt Service Outstanding ^(a)	Less:		The Bonds*		Combined Debt Service*
		Refunded Bonds Debt Service*	Principal	Interest	Total	
2013	\$ 834,032.50	\$ 38,820.00	\$ -	\$ -	\$ -	\$ 795,212.50
2014	630,872.50	237,640.00	170,000.00	56,058.33	226,058.33	619,290.83
2015	628,282.50	236,300.00	175,000.00	44,650.00	219,650.00	611,632.50
2016	630,392.50	234,760.00	175,000.00	41,150.00	216,150.00	611,782.50
2017	635,967.50	237,960.00	185,000.00	37,650.00	222,650.00	620,657.50
2018	635,842.50	235,760.00	185,000.00	33,950.00	218,950.00	619,032.50
2019	645,042.50	238,185.00	195,000.00	29,325.00	224,325.00	631,182.50
2020	638,455.00	235,197.50	195,000.00	24,450.00	219,450.00	622,707.50
2021	640,367.50	237,010.00	200,000.00	18,600.00	218,600.00	621,957.50
2022	646,482.50	238,350.00	210,000.00	12,600.00	222,600.00	630,732.50
2023	645,212.50	234,280.00	210,000.00	6,300.00	216,300.00	627,232.50
2024	153,182.50	-	-	-	-	153,182.50
2025	152,682.50	-	-	-	-	152,682.50
2026	148,082.50	-	-	-	-	148,082.50
2027	153,367.50	-	-	-	-	153,367.50
2028	153,242.50	-	-	-	-	153,242.50
2029	152,782.50	-	-	-	-	152,782.50
2030	152,112.50	-	-	-	-	152,112.50
2031	151,162.50	-	-	-	-	151,162.50
	<u>\$ 8,427,565.00</u>	<u>\$ 2,404,262.50</u>	<u>\$ 1,900,000.00</u>	<u>\$ 304,733.33</u>	<u>\$ 2,204,733.33</u>	<u>\$ 8,228,035.83</u>

^(a) Does not include Other Obligations indebtedness (see Table 3, page A-2).

* Preliminary, subject to change. Interest calculated at an average rate of 2.73% for illustration purposes only.

TAX ADEQUACY

TABLE 5

2012 Certified Net Taxable ARB Approved Assessed Valuation	\$ 993,598,863
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-13)	\$ 795,213 *
Indicated Maximum Interest and Sinking Fund Tax Rate at 99% collections	\$ 0.08084 *

* Preliminary, subject to change.

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

INTEREST AND SINKING FUND MANAGEMENT INDEX

TABLE 6

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2012	\$ 136,417
FY 2013 Interest and Sinking Fund Tax Levy of \$0.0195 at 99% Collections based on the 2012 Certified Net Taxable ARB Approved Assessed Valuation of \$993,598,863 Produces	191,814
FY 2013 Interest and Sinking Fund Deposit from Fire Department Rental Income	308,000
FY 2013 Budgeted Income from PID Utility Connection Fees Paid by Developer (guaranteed with bank letter of credit) (to be deposited to I&S Fund on or before June 2013)	161,000
Total Available for Debt Service	\$ 797,231
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-13	795,213
Estimated Surplus at Fiscal Year Ending 9-30-13 ^(a)	\$ 2,019

^(a) Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

PROJECTED GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE
 (As of June 1, 2013)

TABLE 7

Fiscal Year Ending 9/30	Principal Repayment Schedule			Bonds Unpaid at End of Year*	Percent of Principal Retired (%)*
	Outstanding Bonds ^(a)	The Bonds*	Total*		
2013	\$ 605,000	\$ -	\$ 605,000	\$ 5,940,000	9.24%
2014	260,000	170,000	430,000	5,510,000	15.81%
2015	265,000	175,000	440,000	5,070,000	22.54%
2016	275,000	175,000	450,000	4,620,000	29.41%
2017	285,000	185,000	470,000	4,150,000	36.59%
2018	295,000	185,000	480,000	3,670,000	43.93%
2019	310,000	195,000	505,000	3,165,000	51.64%
2020	315,000	195,000	510,000	2,655,000	59.43%
2021	325,000	200,000	525,000	2,130,000	67.46%
2022	340,000	210,000	550,000	1,580,000	75.86%
2023	355,000	210,000	565,000	1,015,000	84.49%
2024	110,000	-	110,000	905,000	86.17%
2025	115,000	-	115,000	790,000	87.93%
2026	115,000	-	115,000	675,000	89.69%
2027	125,000	-	125,000	550,000	91.60%
2028	130,000	-	130,000	420,000	93.58%
2029	135,000	-	135,000	285,000	95.65%
2030	140,000	-	140,000	145,000	97.78%
2031	145,000	-	145,000	-	100.00%
	<u>\$ 4,645,000</u>	<u>\$ 1,900,000</u>	<u>\$ 6,545,000</u>		

^(a) Excludes the Refunded Bonds and all PPFCO principal outstanding (see Table 3, page A-2).
 * Preliminary, subject to change.

FUND BALANCES

TABLE 8

	Unaudited As of 5-31-13
General Fund	\$ 3,913,446
Debt Service Fund	691,002
Capital Projects Fund	368,642
Total	<u>\$ 4,973,090</u>

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2007-2012 ^(a)

TABLE 9

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent (%)
2007	\$ 912,618,000	101,404,000	12.50%
2008	960,911,000	48,293,000	5.29%
2009	1,015,777,389 ^(b)	54,866,389	5.71%
2010	978,509,574 ^(b)	(37,267,815)	-3.67%
2011	954,645,475 ^(b)	(23,864,099)	-2.44%
2012	993,598,863 ^(b)	38,953,388	4.08%

^(a) Historical comparison information for Tax Years 2007-2008 represents the combined totals from two separate entities (Trophy Club MUD NO. 1 and Trophy Club MUD NO. 2)

^(b) Excludes valuation for incomplete accounts and accounts under ARB review, as of certification Sources: Denton Central Appraisal District, Tarrant Appraisal District and Issuer's 2009 Audited Financial Statements (Supplemental Information)

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

CLASSIFICATION OF ASSESSED VALUATION

TABLE 10

Category	2012	% of Total	2011	% of Total	2010	% of Total	2009	% of Total	2008	% of Total
Land ^(a)	\$ -	0.00%	-	0.00%	-	0.00%	-	0.00%	\$ 186,574,000	18.75%
Land - Homesite	196,695,860	18.43%	193,352,075	18.57%	189,642,427	18.32%	188,045,683	17.48%	-	0.00%
Land - Non Homesite	231,311,751	21.68%	236,144,259	22.68%	248,891,821	24.04%	271,608,898	25.24%	-	0.00%
Land - Agricultural	3,304,866	0.31%	3,304,866	0.32%	3,957,829	0.38%	3,998,666	0.37%	-	0.00%
Improvements ^(a)	-	0.00%	-	0.00%	-	0.00%	-	0.00%	737,273,000	74.10%
Improvements - Homesite	521,613,241	48.89%	497,180,522	47.75%	498,665,743	48.16%	505,293,510	46.96%	-	0.00%
Improvements - Non Homesite	29,521,628	2.77%	19,001,251	1.82%	19,724,323	1.90%	26,769,054	2.49%	-	0.00%
Personal Property ^(a)	84,437,150	7.91%	91,866,777	8.82%	73,302,378	7.08%	70,157,777	6.52%	71,091,000	7.15%
Mineral Property	111,186	0.01%	444,407	0.04%	1,253,858	0.12%	10,174,220	0.95%	-	0.00%
Total Appraised Value	\$ 1,066,995,682	100.00%	\$ 1,041,294,157	100.00%	\$ 1,035,448,379	100.00%	\$ 1,076,047,808	100.00%	\$ 994,938,000	100.00%
Less Exemptions:										
Exemptions ^(a)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,027,000	-
Optional Over-65	14,745,603	13,436,103	12,886,387	11,972,353	1,805,306	1,287,007	3,990,915	58,351	-	-
Disabled and Deceased Veterans'	3,118,815	2,864,298	3,296,361	3,949,539	1,391,082	2,957,045	22,740,838	7,208	-	-
Agricultural Productivity Loss	3,296,413	1,127,925	22,745,880	22,572,987	131,554	43,013,717	-	-	-	-
Freepport	-	-	-	-	-	-	-	-	-	-
Homestead Cap Adjustment	2,224,166	23,396,421	4,406	46,787,824	997,817,696	992,711,824	1,033,034,091	960,911,000	-	-
Total Exempt Property	23,396,421	2,224,166	1,127,925	22,572,987	131,554	43,013,717	-	-	-	-
Partial Exempt Property	4,406	46,787,824	997,817,696	992,711,824	1,033,034,091	960,911,000	-	-	-	-
Total Exemptions	\$ 46,787,824	4.40%	\$ 43,476,461	4.17%	\$ 42,736,855	4.13%	\$ 43,013,717	4.01%	\$ 34,027,000	3.43%
Certified Net Taxable Assessed Valuation	\$ 1,020,207,858	100.00%	\$ 997,817,696	100.00%	\$ 992,711,824	100.00%	\$ 1,033,034,091	100.00%	\$ 960,911,000	100.00%
Less: Taxable Value of Accounts Incomplete/Under Review	\$ (26,608,995)		\$ (43,172,221)		\$ (14,201,850)		\$ (17,256,702)		\$ -	
Certified Net Taxable ARB Approved Assessed Valuation	\$ 993,598,863		\$ 954,645,475		\$ 878,509,974		\$ 1,015,777,389		\$ -	

^(a) Historical comparison information for Tax Years 2008 represents the combined totals from two separate entities (Trophy Club MUD No. 1 and Trophy Club MUD No. 2) and detailed information for Land, Improvements and Exemptions is not available.

^(b) The District has received preliminary 2013 Net Taxable Valuations (ARB Approved) from the Denton and Tarrant Appraisal Districts that total \$1,047,123,588.

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

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

PRINCIPAL TAXPAYERS 2012-2013

TABLE 11

Name	Type of Property	% of Total 2012	
		2012 Net Taxable Assessed Valuation	Assessed Valuation
Maguire Thomas Partners ETAL ^(a)	Commercial Office Complex	\$ 146,358,359	14.73%
Corelogic Solutions LLC	Commercial Real Estate	19,660,713	1.98%
CNL RETMT CRSI Trophy Club Texas LP	Medical Plaza / Hospital	17,000,000	1.71%
Marsh USA Inc.	Insurance Consultant / Data Center	13,166,893	1.33%
Trophy Club 12 LLC	Commercial Real Estate	13,100,000	1.32%
Levi Strauss & Co.	Commercial Office	8,932,881	0.90%
Armore Trophy Club LLC	Real Estate Development	6,903,991	0.69%
EMC Corp	Technology Provider	6,420,468	0.65%
CLUBCORP Golf Texas LP P/S	Commercial Real Estate	6,000,000	0.60%
Trophy Club Medical Center	Healthcare Services	6,163,459	0.62%
Total		\$243,706,764	24.53% ^(b)

Based on a 2012 Certified Net Taxable ARB Approved Assessed Valuation of \$ 993,598,863 ^(b)

^(a) Maguire Thomas Partners or affiliated entities or their successors ("Maguire") currently (as of 1/1/2013 Tarrant Appraisal District records) own the Solana business complex, which is the top principal taxpayer in the District (see APPENDIX A "Table 11 - Principal Taxpayers 2012-2013"). On November 16, 2011, a State district judge in Tarrant County appointed a receiver to take control of Solana. According to court filings, the receiver will operate Solana, take all necessary actions to preserve the income and value of the property, and market the property for sale. Recent news from STAR-TELEGRAM BUSINESS INSIDER (May 8 and May 30, 2013) indicates that portions of the Maguire tracts in Solana are expected to be developed in the near future, pursuant to zoning changes approved in 2013 by the Town of Westlake for a mixed-use development and a high-end residential development, and also that other portions of the Solana Business Park have either been sold or are under contract. The District expects an increase in taxes and water and sewer revenues from these sales and new developments. Solana has paid its 2012 taxes to the District and the District does not expect them to become delinquent in the future. The District cannot predict the impact any future events may have on the District's financial condition.

^(b) Excludes taxable values for incomplete accounts and accounts under ARB Review.

PROPERTY TAX RATES AND COLLECTIONS ^{(a) (b)}

TABLE 12

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Adjusted Tax Levy	% Collections		Fiscal Year Ended
				Current	Total	
2006	\$ 811,214,000	\$ 0.280000	\$ 2,191,536	100.62%	100.36%	9-30-07
2007	912,618,000	0.230000	2,234,909	100.62%	100.36%	9-30-08
2008	960,911,000	0.244815	2,380,679	98.94%	99.58%	9-30-09
2009	1,015,777,389 ^(c)	0.205000	2,091,414	99.66%	100.75%	9-30-10
2010	978,509,574 ^(c)	0.195000	2,047,972	99.58%	100.36%	9-30-11
2011	954,645,475 ^(c)	0.175000	1,714,788	99.49%	99.60%	9-30-12
2012	993,598,863 ^(c)	0.133390	1,615,115	99.08% ^(d)	99.59% ^(d)	9-30-13

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

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

^(c) Excludes value of incomplete accounts and accounts under ARB review, as of certification.

^(d) As of May 31, 2013.

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

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

TAX RATE DISTRIBUTION ^(a)

TABLE 13

	2012-13	2011-12	2010-11	2009-10	2008-09
Operations	\$0.009890	\$0.009890	\$0.008790	\$0.027140	\$0.014040
Fire Protection	0.104000	0.109250	0.109250	0.109140	0.116020
Debt Service	0.019500	0.055860	0.076960	0.068720	0.114555
TOTAL	\$ 0.133390	\$ 0.175000	\$ 0.195000	\$ 0.205000	\$ 0.244815

^(a) Historical comparison information for Tax Year 2008 represents the combined totals from two separate entities (Trophy Club MUD No 1 and Trophy Club MUD No 2).

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

DIRECT AND OVERLAPPING DEBT DATA INFORMATION

TABLE 14

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

Taxing Body	As of	Gross Debt		Amount Overlapping
		Principal	%	
Carroll Independent School District	06-01-13	\$ 263,633,792	3.30%	\$ 8,699,915
Denton County	06-01-13	553,915,000	1.15%	6,370,023
Northwest Independent School District	06-01-13	635,220,450	5.72%	36,334,610
Tarrant County	06-01-13	335,050,000	0.20%	670,100
Tarrant County College District	06-01-13	15,485,000	0.20%	30,970
Tarrant County Hospital District	06-01-13	25,375,000	0.20%	50,750
Town of Trophy Club	06-01-13	11,179,000	80.13%	8,957,733
Westlake, Town of	06-01-13	20,847,000	18.35%	3,825,425
Total Net Overlapping Debt		\$ 1,860,705,242		\$ 64,939,525
Trophy Club MUD No. 1	06-01-13	6,545,000 ^(a)	100.00%	6,545,000 ^(a)
Total Gross Direct Principal and Overlapping Debt		\$ 1,867,250,242		\$ 71,484,525^(a)

Ratio of Direct and Overlapping Debt to 2012 Certified Net Taxable ARB Approved Assessed Valuation	7.19% ^(a)
Ratio of Direct and Overlapping Debt to 2012 Market Value	6.70% ^(a)
Per Capita Direct and Overlapping Debt	\$7,106 ^(a)

^(a) Includes the Bonds and excludes the Refunded Bonds.

* Preliminary, subject to change.

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

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ENTITIES

TABLE 15

Governmental Entity	2012 Net Taxable Assessed Valuation	% of Actual	2012 Tax Rate
Carroll Independent School District	\$ 5,567,257,605	100%	\$ 1.400000
Denton County	54,586,142,483	100%	0.282900
Northwest Independent School District	10,809,189,529	100%	1.375000
Tarrant County	124,676,098,060	100%	0.264000
Tarrant County College District	125,092,633,012	100%	0.149000
Tarrant County Hospital District	124,838,781,318	100%	0.227900
Town of Trophy Club	942,462,305	100%	0.518500
Westlake, Town of	887,185,503	100%	0.156800

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

AUTHORIZED BUT UNISSUED DIRECT GENERAL OBLIGATION BONDS

TABLE 16

<u>Taxing Body</u>	<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>Unissued</u>
Trophy Club MUD No. 1	10-07-75	Water & Sewer	\$ 12,344,217	\$ 11,115,000	\$ 1,229,217
	04-04-81	Water & Sewer	5,800,000	3,760,000	2,040,000
	10-29-88	Water & Sewer	2,500,000	-	2,500,000
	05-10-08	Fire Station	2,000,000	2,000,000	-
			<u>\$ 20,644,217</u>	<u>\$ 14,875,000</u>	<u>\$ 5,769,217</u>

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF OVERLAPPING GOVERNMENTAL ENTITIES

TABLE 17

<u>Taxing Body</u>	<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Issued To Date</u>	<u>Unissued</u>
Carroll ISD	None				
Denton County	01-16-99	Road	\$ 85,320,000	\$ 77,629,375	\$ 7,690,625
	05-15-04	Road	186,970,000	186,970,000	-
	05-15-04	County Offices	17,900,000	17,900,000	-
	05-15-04	Equipment	2,000,000	-	2,000,000
	11-04-08	Road	310,000,000	161,713,062	148,286,938
	11-04-08	County Buildings	185,000,000	107,850,876	77,149,124
			<u>\$ 787,190,000</u>	<u>\$552,063,313</u>	<u>\$ 235,126,687</u>
Northwest ISD	05-10-08	School Buildings	\$ 260,000,000	\$ 215,000,000	\$ 45,000,000
Tarrant County	04-04-87	Courthouse Improv	\$ 47,000,000	\$ 46,500,000	\$ 500,000 ^(a)
	08-08-98	Law Enforcement Ctr	70,600,000	63,100,000	7,500,000
	08-08-98	Healthcare Facility	9,100,000	1,000,000	8,100,000
	08-08-98	Jail	14,600,000	14,600,000	-
	05-13-06	Road & Bridge	200,000,000	126,700,000	73,300,000
	05-13-06	Jail	108,000,000	108,000,000	-
	05-13-06	County Buildings	62,300,000	47,300,000	15,000,000
	05-13-06	Juvenile Deten. Ctr.	36,320,000	4,200,000	32,120,000
	05-13-06	County Offices	26,500,000	26,500,000	-
			<u>\$ 574,420,000</u>	<u>\$437,900,000</u>	<u>\$ 136,520,000</u>
Tarrant Co. College Dist	None				
Tarrant Co. Hospital Dis	None				
Trophy Club, Town of	None				
Westlake, Town of	None				

^(a) The County will not issue authorization due to age.

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

GENERAL FUND COMPARATIVE SCHEDULES OF
REVENUES AND EXPENDITURES

TABLE 18

	Fiscal Year Ended September 30				
	2012	2011	2010	2009	2008
Revenue and Other Financing Sources:					
Ad Valorem Property Taxes	\$ 1,374,808	\$ 1,311,296	\$ 1,491,564	\$ 1,283,705	\$ 1,002,608
Water & Wastewater Charges	5,210,077	5,323,244	3,919,084	3,721,868	3,678,859
Utility Fees	647,080	165,600	80,500	515,200	-
Inspection and Tap Fees	9,009	8,560	5,775	4,975	22,550
Interest Earned	5,706	5,534	6,171	20,755	69,447
Other Financing Sources - Debt Issue	1,100,000	-	-	330,000	49,432
Miscellaneous and Other	215,227	240,831	191,498	199,780	116,295
Total Revenues and Other Financing Sources:	\$ 8,561,907	\$ 7,055,065	\$ 5,694,592	\$ 6,076,283	\$ 4,939,191
Expenditures and Other Financing Uses:					
Administrative	\$ 1,097,547	\$ 1,042,073	\$ 993,986	\$ 1,297,613	\$ 905,052
Water Operations	2,503,331	2,271,490	1,882,511	1,811,385	1,934,792
Transfers Out and Debt Service	1,011,260	1,130,123	558,000	383,009	-
Wastewater Operations	614,102	598,465	711,382	999,388	500,224
Wastewater Collection System	260,895	277,775	308,798	294,869	409,948
Information Systems	173,386	123,605	182,658	175,698	187,908
Contribution to Trophy Club Fire Dept.	822,307	770,123	876,521	783,736	902,353
Capital Outlay	1,562,809	515,884	-	-	29,379
Miscellaneous	-	-	-	-	45,457
Total Expenditures and Other Financing Uses:	\$ 8,045,637	\$ 6,729,538	\$ 5,513,856	\$ 5,745,698	\$ 4,915,113
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 516,270	\$ 325,527	\$ 180,736	\$ 330,585	\$ 24,078
Beginning Fund Balance - October 1 (Restated)	3,338,441	3,012,914	2,832,178	2,501,593	2,477,515
Ending Fund Balance - September 30	\$ 3,854,711 ^(a)	\$ 3,338,441	\$ 3,012,914	\$ 2,832,178	\$ 2,501,593
Total Active Retail Connections					
Water and/or Wastewater Connections	3,887	3,554	3,361	3,161	3,092

^(a) The District anticipates that the General Fund balance for Fiscal Year 2013 will remain materially unchanged from the prior fiscal year.

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

Source: The Issuer's Audited Financial Statements

DEBT SERVICE FUND COMPARATIVE SCHEDULES OF
REVENUES AND EXPENDITURES

TABLE 19

	Fiscal Year Ended September 30				
	2012	2011	2010	2009	2008
Revenue and Other Financing Sources:					
Ad Valorem Property Taxes	\$ 547,587	\$ 771,631	\$ 740,420	\$ 1,100,115	\$ 1,302,763
Penalties and Interest	3,226	6,018	-	11,885	-
Transfers In / Utility Fees	308,000	554,100	653,000	383,009	-
Interest Earned	1,294	985	4,848	4,105	23,326
Miscellaneous and Other	10,782	-	1,000	-	29,379
Total Revenues and Other Financing Sources:	\$ 870,889	\$ 1,332,734	\$ 1,399,268	\$ 1,499,114	\$ 1,355,468
Expenditures and Other Financing Uses:					
Principal Retirement	\$ 565,000	\$ 1,115,000	\$ 1,055,000	\$ 1,025,000	\$ 975,000
Interest and Fiscal Charges	277,319	382,019	311,570	352,194	390,565
Total Expenditures and Other Financing Uses:	\$ 842,319	\$ 1,497,019	\$ 1,366,570	\$ 1,377,194	\$ 1,365,565
Excess (Deficit) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 28,570	\$ (164,285)	\$ 32,698	\$ 121,920	\$ (10,097)
Beginning Fund Balance - October 1 (Restated) (Restated)	107,847	272,132	239,434	117,514	N/A
Ending Fund Balance - September 30	\$ 136,417	\$ 107,847	\$ 272,132	\$ 239,434	N/A

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

N/A = Not Available

Source: The Issuer's Audited Financial Statements

APPENDIX B

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

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

TOWN OF TROPHY CLUB

General

The Town of Trophy Club (the "Town"); incorporated in January of 1985, is Texas's first premiere planned residential and country-club community. The Town is located in the southern portion of the Denton County (the "County") on State Highway 114 approximately 8 miles west of the City of Grapevine, 17 miles south of the City of Denton and 14 miles northwest of the Dallas-Fort Worth International Airport. Lake Grapevine is located approximately 2 miles north and east of the Town. The majority of property within the Town consists of single-family and multi-family housing. The Solana Business Complex is located adjacent to the Town's eastern border in the cities of Westlake and Southlake. Both residents and businesses of the Town are furnished water and wastewater treatment from Trophy Club Municipal Utility District No. 1. The Town's 2010 Census was 8,024, which is a 26.65% increase over the 2000 Census. The Town's 2013 population estimate was 10,060.

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



Population:

<u>Year</u>	<u>Town of Trophy Club</u>	<u>Denton County</u>
Current Estimate	10,060	707,304
2010 Census	8,024	662,614
2000 Census	6,350	423,976
1990 Census	3,922	273,525
1980 Census	N/A	143,126

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

Leading Employers in the District:

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

^(a) See "THE DISTRICT - Status of Business/Commercial Development" and APPENDIX A "Table 11 - Principal Taxpayers 2012-2013" herein for a description of the current status of the property owned by Maguire Partners ("Maguire"). The District cannot predict the impact that development events may have on Maguire's operations or its employees in the District.

Source: Information from the Issuer

Education

The Town is served by the Northwest Independent School District (the "School District" or "Northwest ISD"). Northwest ISD covers approximately 232 square miles in Denton, Wise and Tarrant Counties. In addition to serving the Town, the School District also serves the communities of Aurora, Fairview, Haslet, Justin, Newark, Northlake, Rhome, Roanoke and portions of Flower Mound, Fort Worth, Keller, Southlake and Westlake. Northwest ISD is comprised of 16 primary schools for grades pre-kindergarten through fifth, 5 middle schools for grades sixth through eighth, 3 high schools for grades ninth through twelfth, and 2 alternative education campuses for grades seventh through twelfth. One of the high schools, Byron Nelson High School, is located in the Town of Trophy Club. All campuses offer enriched curricula with special programs for gifted/talented students as well as students achieving below grade level, and all are equipped with computers and full cafeteria service. The School District serves a 2012-2013 estimated enrollment of 17,791 students (as of May 31, 2013)

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

DENTON COUNTY

General

Denton County (the "County") is located in north central Texas. The County was created in 1846. It is the ninth most populous county in the state occupying a land area of 911 square miles. The population of the County has grown over 50% since the 2000 census. The County seat is the City of Denton.

The economy is diversified by manufacturing, state supported institutions, and agriculture. The Texas Almanac designates cattle, horses, poultry, hay, wheat and sorghum as the principal sources of agricultural income. Minerals produced in Denton County include natural gas and clay. Institutions of higher education include the University of North Texas and Texas Woman's University with a combined 2012 fall enrollment of over 50,000.

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

Alliance Airport, the largest industrial airport in the world is located in the county and continues to attract new transportation, distribution, and manufacturing tenants. The Texas Motor Speedway, a major NASCAR race track, was completed in 1997 and has had a positive impact on employment and recreational spending for the area. A major Wal-Mart distribution center located in Sanger is adding to the growth of the northern portion of the County. Large housing developments that were begun several years ago have been completed and new developments such as Rayzor Ranch, the Hills of Denton, Hunter Ranch and Cole Ranch are expected to add over 28,000 new housing units in the next 20 years.

Source: Texas Municipal Report and information from the County.

Major Employers in Denton County

Employer	Principal Line of Business	Number of Employees
University of North Texas	Higher Education	7,762
Lewisville Independent School District	Public School Education	6,508
Wal-Mart Distribution Center	Distribution Center	3,900
Denton Independent School District	Public School Education	3,266
Centex Home Equity	Finance / Insurance	2,600
Frito Lay Co	Manufacturing	2,500
American Airlines	Transportation / Warehousing	2,154
Peterbilt Motors	Manufacturing	2,100
Northwest Independent School District	Public School Education	1,636
Denton State School	Mental Health Facility / Services	1,500

Source: Denton County 2012 Comprehensive Annual Financial Report

Labor Force Statistics

	Denton County	
	April 2013	April 2012
Civilian Labor Force	389,989	381,272
Total Employed	369,380	359,117
Total Unemployed	20,609	22,155
% Unemployed	5.3%	5.8%
% Unemployed (Texas)	6.1%	6.5%
% Unemployed (United States)	7.1%	7.7%

Source: Texas Workforce Commission, Labor Market Information Department.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

Proposed Form of Opinion of Bond Counsel

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

[DATE OF DELIVERY]

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX REFUNDING BONDS
SERIES 2013
DATED JULY 1, 2013
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ _____**

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

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION THAT the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered, and that, assuming due authentication, Bonds issued in exchange therefor will have been duly delivered, in accordance with law, and that said Bonds, except as may be limited by laws applicable to the District relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the District, payable from ad valorem taxes to be levied, without limit as to rate or amount, and collected by the District upon taxable property within the District, which taxes the District has covenanted to levy in an amount sufficient to pay the interest on and the principal of the Bonds. Such covenant to levy taxes is subject to the right of a city, under existing Texas law, to annex all of the territory within the District; to take over all properties and assets of the District; to assume all debts, liabilities, and obligations of the District, including the Bonds; and to abolish the District or if the District consolidates with another District.

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

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

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

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

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

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

Respectfully,

APPENDIX D

EXCERPTS FROM THE DISTRICT'S AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Trophy Club Municipal Utility District No. 1, (the District), as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Trophy Club Municipal Utility District No. 1 as of September 30, 2012, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have issued a report dated January 15, 2013 on our consideration of the District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

LaFollett and Company PLLC

Tom Bean, Texas
January 15, 2013

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012

Trophy Club Municipal Utility District No. 1, Texas (the "District") Management's Discussion and Analysis (MD&A) is a narrative overview and analysis designed to provide the reader a means to identify and understand the financial activity of the District and changes in the District's financial position during the fiscal year ended September 30, 2012.

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

Financial Highlights

At the close of the fiscal year, the assets of the District exceeded its liabilities by \$14,140,050. Of this amount, \$4,000,715 is unrestricted net assets and may be used to meet the District's ongoing commitments.

The District's net assets increased by \$1,618,006 as a result of operations.

At the end of the fiscal year, the District's governmental type funds reported a combined fund balance of \$3,916,896.

As of September 30, 2012, the unassigned fund balance of the General Fund was \$3,075,080, which is equal to 40% of total General Fund expenditures.

Long-term debt activity for the District included a new \$1,100,000 note payable and a \$2,355,000 Series 2012 refunding bonds.

Overview of the Financial Statements

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

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

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Overview of the Financial Statements – continued

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

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

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

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

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

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

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Overview of the Financial Statements - continued

Government-wide Financial Analysis

The Management's Discussion and Analysis highlights the information provided in both the Statement of Net Assets and Statement of Activities in the government-wide financial statements. It may serve over an extended period of time, as a useful indicator of the District's financial position. At the end of the fiscal year, the District's assets exceeded liabilities by \$14,140,050. Of this amount \$10,009,038 (71%) reflects the District's investment in capital assets (e.g., land, buildings, machinery and equipment, net of accumulated depreciation), less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide service to the community; therefore these assets are not available for future spending.

Table 1
Condensed Statements of Net Assets

	Governmental Activities 2012	Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
Current and other	\$ 5,441,743	\$ 4,782,322
Capital assets	17,740,507	16,798,956
Total Assets	<u>23,182,250</u>	<u>21,581,278</u>
Long-term liabilities	6,641,531	6,850,903
Other liabilities	2,400,669	2,208,331
Total liabilities	<u>9,042,200</u>	<u>9,059,234</u>
Net Assets:		
Invested in capital assets, net of related debt	10,009,038	9,291,084
Restricted	130,297	107,847
Unrestricted	4,000,715	3,123,113
Total Net Assets (restated)	<u>\$ 14,140,050</u>	<u>\$ 12,522,044</u>

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Overview of the Financial Statements - continued

District operational analysis – The following table provides a summary analysis of the District's consolidated operations for the fiscal years ended September 30, 2012 and 2011. Governmental activities have increased the District's net assets by \$1,618,006, which amounts to a 13% increase in net assets for the year ended September 30, 2012.

Table 2
Changes in Net Assets

	Governmental Activities 2012	Governmental Activities 2011
	<u>2012</u>	<u>2011</u>
Revenue:		
Program revenue		
Charges for services	\$ 5,981,722	\$ 5,814,098
Grants and Contributions	70,512	349,252
General Revenue		
Ad valorem taxes	1,931,167	2,081,548
Unrestricted investment earnings	7,000	7,573
Miscellaneous	123,024	80,908
Total Revenue	<u>8,113,425</u>	<u>8,333,379</u>
Expenses:		
Water & Wastewater operations	3,703,498	3,499,324
General government	1,658,228	1,400,004
Fire	843,542	785,195
Interest and fiscal charges	290,151	397,449
Total Expenses	<u>6,495,419</u>	<u>6,081,972</u>
Increase in net assets (FY11 restated)	<u>\$ 1,618,006</u>	<u>\$ 2,251,407</u>

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Financial analysis of the District's funds

Governmental Funds - the main focus of the District's governmental funds is to provide information on the flow of monies to and from the funds, and to note the unassigned fund balance, which is a good indicator of resources available for spending in the near term. The information derived from these funds is highly useful in assessing the District's financial requirements. The unassigned fund balance may serve as a useful measure of the government's net resources available for use at the fiscal year-end.

At the end of the fiscal year, the District's governmental funds reported combined ending fund balances of \$3,916,896, of which 77%, or \$3,000,848, is unassigned and available to the District for future spending.

General Fund budgetary highlights

Significant amendments to the General Fund 2012 budget involved the addition of \$1,100,000 for note payable proceeds and related capital outlay expenditures.

Revenue: Revenues were \$122,467 (1.6%) less than budgeted

- Water and wastewater charges were \$230,700 (4%) less than budgeted. Most of the variance is from wastewater department.

Expenses: Expenses were \$315,421 (3.9%) less than budgeted

- Wastewater collection expenditures were \$190,617 less than budgeted.
- Debt service expenditures were \$63,988 more than budgeted.

Debt Service Fund:

- The debt service fund reserves increased from \$107,847 to \$137,297 due to an overall \$27,730 favorable budget variance.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Capital Asset and Debt Administration

The District's investment in capital assets for its governmental activities as of September 30, 2012 amounted to \$17,740,507, net of accumulated depreciation. This represents a broad range of capital assets including, but not limited to land, buildings, improvements, machinery and equipment, vehicles, and water, wastewater treatment, and wastewater collection systems.

Capital assets increased approximately 5.6% during 2012 primarily due to over \$1.05 million of water system improvements.

A management review of capital assets was performed during fiscal year 2012 and identified \$259,922 of unrecorded capital contributions in prior years. Additionally, \$203,428 in accounts payable in the Capital Projects Fund at the beginning of the year related to the cost of building improvements, but the payable was deemed invalid by both the vendor and the District during 2012. Additional information about capital assets may be found in Note 5 in the notes to financial statements.

Debt administration

Long-Term Debt – at the end of the current fiscal year, the consolidated District had \$7,731,469 of general obligation bonds, contractual obligation bonds, notes payable, capital lease obligations, and accrued compensated absences, a decrease of 1% from the previous fiscal year. Of this amount, \$7,695,243 is backed by the full faith and credit of the government. New debt for the District included a \$1,100,000 note payable and a \$2,355,000 Series 2012 refunding bonds that defeased the \$2,355,000 of outstanding Series 2002 bond debt.

General debt currently outstanding

Table 3
Outstanding Debt at Year-end

	Governmental Activities 2012	Governmental Activities 2011
General obligation bonds	\$ 6,717,270	\$ 7,162,142
Contractual obligations	137,000	349,059
Notes payable	840,973	190,209
Capital lease obligations	-	9,888
Compensated absences	36,226	77,916
Total	\$ 7,731,469	\$ 7,789,214

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Economic factors and next year's budgets and rates:

General fund fiscal year 2013 budgetary highlights

Revenue: Excluding the \$1.1 million loan proceeds for 2012 Water Capital Project, the District's 2013 operational revenue is budgeted to increase by \$77,484.

- Property tax revenue is budgeted to increase by \$46,370 due to an increase in property values for new construction of residential homes.
- Water and wastewater revenue is budgeted to increase by \$139,712 due to an increase in utility rates and new construction in residential homes.
- Utility fees revenue is budgeted to increase by \$23,000 due to new home construction. A reserve of \$345,000 in Utility fees will be allocated to the Debt Service fund.

Expenses: Excluding the \$1.1 million of expenses for the 2012 Water Capital Project, the District's 2013 operational expense is budgeted to increase by \$800,701.

- The majority of the increase is related to wastewater plant upgrades.
- The wholesale water budget is to increase by \$308,447 due to an increase in new construction of residential homes.

Overall:

The District's 2013 operational budget is anticipated to have expenses of \$7,845,141 on revenues of \$7,539,393 that results in a \$305,748 use of reserves.

Debt Service Fund 2013 budget:

- Debt service revenues are budgeted to decrease from \$870,889 in fiscal 2012 to \$860,557 in fiscal 2013. This is a decrease of \$10,332, or 1.186%.
- Debt service appropriations will decrease from \$842,319 to \$838,033 due to the 2012 refinancing of an existing bond issue.
- Property tax revenues are budgeted to decrease by \$346,747 due to a tax rate reduction. \$345,000 in utility fees are allocated from the General Fund to the Debt Service fund in 2013. In fiscal year 2012, \$338,880 in utility fees were budgeted in the General fund and \$6,120 were budgeted in the Debt Service fund.

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
September 30, 2012**

Economic factors and next year's budgets and rates: (Continued)

The consolidated District's overall budget for revenue increased from \$8,332,798 in fiscal 2012 to \$8,399,950 in fiscal 2013, which is a .8058% increase. The overall appropriations increased from \$7,886,759 to \$8,683,174, which is a 10.098% increase.

Requests for information

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

BASIC FINANCIAL STATEMENTS

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

ASSETS	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 4,251,741
Receivables	
Accounts receivable, net	738,961
Taxes	38,165
Other	31,029
Due from other governments	184,910
Deferred charges	196,937
Non-depreciable capital assets:	
Land	248,093
Construction in progress	278,856
Non-depreciable capital assets:	
Buildings and other improvements	3,648,283
Machinery, vehicles, and other equipment	3,257,208
Water system	18,022,252
Organization costs	2,331,300
Accumulated depreciation	<u>(10,045,485)</u>
TOTAL ASSETS	<u><u>\$ 23,182,250</u></u>
LIABILITIES	
Accounts payable	\$ 1,053,876
Accrued liabilities	29,242
Accrued interest payable	20,986
Customer deposits	206,627
Noncurrent liabilities:	
Debt due within one year	1,089,938
Debt due in more than one year	<u>6,641,531</u>
TOTAL LIABILITIES	<u>9,042,200</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,009,038
Restricted for debt service	130,297
Unrestricted	<u>4,000,715</u>
TOTAL NET ASSETS	<u><u>\$ 14,140,050</u></u>

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012**

Program Activities	Governmental Activities				Net (Expenses) Revenue and Changes in Net Assets	
	Expenses	Program Revenues		Capital Grants and Contributions		Governmental Activities
		Charges for Services	Operating Grants and Contributions			
Governmental Activities						
General government	\$ 509,358	\$ 764,636	\$ -	\$ -	\$ 255,278	
Water operations	2,703,404	3,463,348	-	28,680	788,624	
Wastewater operations	667,328	1,753,738	-	31,832	1,118,242	
Wastewater collection system	332,766	-	-	-	(332,766)	
Utility billing	199,201	-	-	-	(199,201)	
Directors	16,834	-	-	-	(16,834)	
Manager's office	556,359	-	-	-	(556,359)	
Finance and H.R.	117,052	-	-	-	(117,052)	
Facilities management	85,314	-	-	-	(85,314)	
Information systems	174,110	-	-	-	(174,110)	
Fire	843,542	-	10,000	-	(833,542)	
Interest on long term debt	290,151	-	-	-	(290,151)	
Total governmental activities	\$ 6,495,419	\$ 5,981,722	\$ 10,000	\$ 60,512	\$ (443,185)	

General Revenues:		
Ad valorem taxes		1,931,167
Investment income		7,000
Miscellaneous		123,024
Total general revenues		2,061,191
	Change in net assets	1,618,006
	Net Assets - beginning of year, as restated	12,522,044
	Net Assets - end of year	\$ 14,140,050

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012**

ASSETS

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 4,066,050	\$ 136,417	\$ 49,274	\$ 4,251,741
Receivables:				
Accounts receivables, net	738,961	-	-	738,961
Taxes	21,770	16,395	-	38,165
Other receivables	31,029	-	-	31,029
Due from other governments	184,910	-	-	184,910
Due from other funds	1,877	-	-	1,877
Prepays	-	-	-	-
TOTAL ASSETS	<u>\$ 5,044,597</u>	<u>\$ 152,812</u>	<u>\$ 49,274</u>	<u>\$ 5,246,683</u>

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts payable	\$ 932,247	\$ -	\$ 121,629	\$ 1,053,876
Accrued liabilities	29,242	-	-	29,242
Customer deposits	206,627	-	-	206,627
Due to other governments	-	-	-	-
Due to other funds	-	-	1,877	1,877
Deferred revenue	21,770	16,395	-	38,165
Total liabilities	<u>1,189,886</u>	<u>16,395</u>	<u>123,506</u>	<u>1,329,787</u>
Fund Balances				
Assigned - Budgetary Deficits	305,748	-	-	305,748
Assigned - Other	473,883	136,417	-	610,300
Unassigned	3,075,080	-	(74,232)	3,000,848
Total fund balances	<u>3,854,711</u>	<u>136,417</u>	<u>(74,232)</u>	<u>3,916,896</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 5,044,597</u>	<u>\$ 152,812</u>	<u>\$ 49,274</u>	<u>\$ 5,246,683</u>

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

Total fund balances - governmental funds	\$ 3,916,896
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.	17,740,507
Costs associated with the issuance of long-term debt are expensed when incurred in governmental funds. These costs are capitalized and amortized over the life of the debt in the government wide financial statements.	196,937
Revenue reported as deferred revenue in the governmental funds balance sheet is recognized as revenue in the government wide statement financial statements.	38,165
Interest payable on long term debt does not require current financial resources; therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(20,986)
Accrued compensated absences does not require the use of current financial resources; therefore accrued vacation is not reported as a liability in the governmental funds balance sheet.	(36,226)
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported in the fund financial statements.	<u>(7,695,243)</u>
Net assets of governmental activities	<u><u>\$ 14,140,050</u></u>

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

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

	General Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
Revenues:				
Water and wastewater charges	\$ 5,210,077	\$ -	\$ -	\$ 5,210,077
Taxes	1,374,807	550,813	-	1,925,620
Utility fees	647,080	6,120	-	653,200
Miscellaneous	95,792	-	22,570	118,362
Oversize meter reimbursements	109,436	-	-	109,436
Intergovernmental revenues	10,000	-	-	10,000
Inspection and tap fees	9,009	-	-	9,009
Investment income	5,706	1,294	-	7,000
Total revenues	7,461,907	558,227	22,570	8,042,704
Expenditures				
Current:				
Water operations	2,503,331			2,503,331
Fire	822,307			822,307
Wastewater operations	614,102			614,102
Manager's office	556,359			556,359
Wastewater collection system	260,895			260,895
Utility billing	199,201		-	199,201
Information systems	173,386		-	173,386
Finance	114,970		-	114,970
General government	122,787		42	122,829
Facilities management	85,314		-	85,314
Directors	16,834		-	16,834
Human resources	2,082	-	-	2,082
Capital Outlay	1,562,809	-	-	1,562,809
Debt Service				
Principal	680,899	565,000	-	1,245,899
Interest and fiscal charges	20,083	275,519	-	295,602
Bond administrative fees	-	1,800	-	1,800
Total expenditures	7,735,359	842,319	42	8,577,720
Excess (deficiency) of revenues over (under) expenditures	(273,452)	(284,092)	22,528	(535,016)
Other financing sources (uses)				
Issuance of refunding bonds	-	2,355,000	-	2,355,000
Payment to refunding bonds escrow agent	-	(2,355,000)	-	(2,355,000)
Issuance of notes	1,100,000	-	-	1,100,000
Premium on bonds	-	4,662	-	4,662
Transfers in	-	308,000	2,278	310,278
Transfers out	(310,278)	-	-	(310,278)
Total other financing sources (uses)	789,722	312,662	2,278	1,104,662
Net change in fund balance	516,270	28,570	24,806	569,646
Fund Balances - beginning of year (restated)	3,338,441	107,847	(99,038)	3,347,250
Fund Balances - end of year	\$ 3,854,711	\$ 136,417	\$ (74,232)	\$ 3,916,896

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

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012**

Net change in fund balances - total governmental funds	\$	569,646
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Depreciation expense on capital assets reported in the statement of activities does not require the use of current financial resources, therefore, depreciation expense is not reported as expenditures in the governmental funds.		(674,440)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		1,562,809
Governmental funds reflect the proceeds of notes payable as other financing sources. However, in the government-wide statements, the proceeds are reflected as increases in long-term liabilities.		(1,100,000)
Debt principal payments reduces long-term liabilities in the statement of net assets, but it is recorded as an expenditure in the governmental funds		1,245,899
Current year contributions of capital assets are not recorded in the governmental funds, but are recognized for the government-wide financial statements.		60,512
Governmental funds report the effects of issuance costs, premiums, and deferred losses on refunding when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.		(18,733)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to decrease net assets.		(34,938)
Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		7,251
Change in net assets of governmental activities	\$	<u>1,618,006</u>

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

Denton County Municipal Utility District No. 1 (the District) was created by the Texas Water Rights Commission (later known as Texas Commission on Environmental Quality (TCEQ)) on March 4, 1975 and confirmed by the electorate of the District at a confirmation election on October 7, 1975. The Board of Director's held its first meeting on April 24, 1975. The Bonds were first sold on June 8, 1976. The District operates pursuant to Article XVI, Chapter 59 of the Texas Constitution and Chapter 54 of the Texas Water Code, as amended. Effective April 1, 1983, the District's name was officially changed by order from Denton County Municipal Utility District No. 1 to Trophy Club Municipal Utility District No. 1.

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

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

B. Financial Reporting Entity

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

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

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization. Some organizations are included as component units because of their fiscal dependency on the primary government. An organization is fiscally dependent on the primary government if it is unable to adopt its budget, levy taxes, set

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

rates or charges, or issue bonded debt without approval by the primary government. Accordingly, the District has no component units.

C. Government-Wide and Fund Financial Statements

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

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

Fund Financial Statements

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements are required to present each major fund in a separate column on the fund financial statements. For fiscal year 2012, the major fund is the General Fund. Non-major funds include the Debt Service Fund and Capital Projects Fund.

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

General Fund

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

Debt Service Fund

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Projects Fund

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

E. Cash and Investments

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

E. Cash and Investments - Continued

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

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

F. Capital Assets

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

G. Accumulated Vacation, Compensated Time and Sick Leave

District employee benefits are furnished under a contract with the Town of Trophy Club, Texas. The District allocates these costs from the Town to various expense accounts and the Town is subsequently reimbursed. The District retains primary liability for its employee vacation pay and records compensated absences earned by personnel based on the District's vacation policy.

H. Organizational Costs

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

I. Net Assets

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

J. Estimates

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

K. Fund Balances

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Fund Balances - Continued

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

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

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

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

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

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

NOTE 2. CASH AND INVESTMENTS

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

At September 30, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and non-pooled savings accounts) was \$683,991 and the bank balance was \$744,093. The District's cash deposits at September 30, 2012, and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

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

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

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

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

Cash and investments as of September 30, 2012 are classified in the accompanying financial statements as follows:

Statement of Net Assets

Primary Government:

Cash and cash equivalents	<u>\$ 4,251,741</u>
Total cash and investments	<u>\$ 4,251,741</u>

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

Cash and investments as of September 30, 2012 consist of the following:

Petty Cash	\$	900
Deposits with financial institutions		683,991
Investments		<u>3,566,850</u>
Total cash and investments	\$	<u>4,251,741</u>

The District's cash and investments balance includes \$206,627 which is restricted for customer deposits.

Disclosures Relating to Interest Rate Risk

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

As of September 30, 2012, the District had the following investment:

Investment Type	Amount	Weighted Average Maturity
TexPool	\$ <u>3,566,850</u>	38 days
Total Investments	\$ <u>3,566,850</u>	

As of September 30, 2012, the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

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

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

NOTE 2. CASH AND INVESTMENTS – CONTINUED

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>
TexPool	\$ 3,566,850	N/A	AAA
Total Investments	\$ 3,566,850		

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2012, other than external investment pools, the District did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

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

As of September 30, 2012 the District deposits with financial institutions were not in excess of federal depository insurance limits.

Investment in State Investment Pools

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

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

NOTE 3. ACCOUNTS RECEIVABLE

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

Accounts Receivable:		
MUD water	\$	382,296
MUD sewer		185,953
Unbilled receivables		93,145
Refuse (as agent for Town of Trophy Club)		53,119
Refuse tax (as agent for Town of Trophy Club)		4,656
Storm drainage (as agent for Town of Trophy Club)		31,843
		751,012
Allowance for uncollectible accounts		(12,051)
Total (net)	\$	738,961
Due from Other Governments:		
Town of Trophy Club	\$	184,910

NOTE 4. INTERFUND TRANSFERS

Transfers between funds during the year are as follows:

Transfer In	Transfer Out	Amount	Purpose
Capital Projects	General Fund	\$ 2,278	Capital Improvement Costs
Debt Service	General Fund	308,000	Debt service
	Total	\$ 310,278	

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

NOTE 5. CAPITAL ASSETS AND PRIOR PERIOD ADJUSTMENTS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Beginning Balance as Previously Reported	Adjustments/ Reclassifications	Beginning Balance As Restated	Additions	Retirements/ Transfers	Ending Balance
Governmental Activities:						
Capital assets, not being depreciated						
Land	\$ 248,093	\$ -	\$ 248,093	\$ -	\$ -	\$ 248,093
Construction in progress	281,899	-	281,899	288,351	(291,394)	278,856
Total capital assets not being depreciated	<u>529,992</u>	<u>-</u>	<u>529,992</u>	<u>288,351</u>	<u>(291,394)</u>	<u>526,949</u>
Capital assets, being depreciated						
Buildings	3,548,218	(203,428)	3,344,790	-	-	3,344,790
Improvements other than buildings	265,017	-	265,017	38,475	-	303,492
Machinery and equipment	1,454,213	-	1,454,213	141,438	-	1,595,651
Organization costs	2,331,300	-	2,331,300	-	-	2,331,300
Vehicles	1,627,955	-	1,627,955	62,215	(28,613)	1,661,557
Water system	8,080,056	133,385	8,213,441	1,053,680	70,000	9,337,121
Wastewater treatment system	5,441,926	-	5,441,926	31,832	189,562	5,663,320
Wastewater collection system	2,863,443	126,537	2,989,980	-	31,832	3,021,812
Total capital assets being depreciated	<u>25,612,128</u>	<u>56,494</u>	<u>25,668,622</u>	<u>1,327,640</u>	<u>262,781</u>	<u>27,259,043</u>
Less accumulated depreciation for:						
Buildings	(125,015)	-	(125,015)	(67,071)	-	(192,086)
Improvements other than buildings	(187,552)	-	(187,552)	(13,385)	-	(200,937)
Machinery and equipment	(481,559)	-	(481,559)	(90,358)	-	(571,917)
Organization costs	(2,103,752)	-	(2,103,752)	(74,430)	-	(2,178,182)
Vehicles	(1,041,616)	-	(1,041,616)	(112,826)	28,613	(1,125,829)
Water system	(2,786,083)	-	(2,786,083)	(137,420)	-	(2,923,503)
Wastewater treatment system	(1,513,503)	-	(1,513,503)	(127,651)	-	(1,641,154)
Wastewater collection system	(1,160,578)	-	(1,160,578)	(51,299)	-	(1,211,877)
Total accumulated depreciation	<u>(9,399,658)</u>	<u>-</u>	<u>(9,399,658)</u>	<u>(674,440)</u>	<u>28,613</u>	<u>(10,045,485)</u>
Governmental activities capital assets, net	<u>\$ 16,742,462</u>	<u>\$ 56,494</u>	<u>\$ 16,798,956</u>	<u>\$ 941,551</u>	<u>\$ -</u>	<u>\$ 17,740,507</u>

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

NOTE 5. CAPITAL ASSETS AND PRIOR PERIOD ADJUSTMENTS - CONTINUED

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

General government	\$ 386,529
Water operations	140,855
Fire department	21,235
Information systems	724
Wastewater operations	53,226
Wastewater collection systems	71,871
Total depreciation expense	\$ 674,440

Prior Period Adjustment to Net Assets and Capital Projects Fund Balance

A management review of capital assets was performed during fiscal year 2012 and identified \$259,922 of unrecorded capital contributions in prior years.

Additionally, \$203,428 in accounts payable in the Capital Projects Fund at the beginning of the year related to the cost of building improvements, but the payable was deemed invalid by both the vendor and the District during 2012.

The following schedule outlines the changes in the District's beginning equity balances:

<u>Governmental Fund Types</u>	<u>Capital Projects Fund</u>
Fund balances - beginning	\$ (302,466)
Prior period adjustment for overstated payables	203,428
Fund balances - beginning as adjusted	\$ (99,038)
<u>Government-wide effects</u>	<u>Governmental Activities</u>
Net Assets - beginning	\$ 12,262,122
Prior period adjustments related to unrecorded capital asset contributions	259,922
Net Assets - beginning as adjusted	\$ 12,522,044

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

NOTE 6. LONG-TERM DEBT

At September 30, 2012, the District's long-term debt payable consisted of the following:

Description	Interest Rate Payable	Year of Issue	Final Maturity	Average Annual Payment	Original Amount	Outstanding 9/30/2012
Tax and revenue bonds:						
Improvements	4.00-5.00%	2002	2023	281,058	3,510,000	\$ -
Operations	4.00-5.00%	2003	2023	89,793	1,200,000	785,000
Refunding	3.00-4.20%	2005	2023	195,676	3,143,998	1,480,000
Improvements	3.50-5.00%	2010	2031	148,205	2,000,000	1,935,000
Refunding	2.00-3.00%	2012	2023	251,373	2,355,000	2,355,000
						<u>\$6,555,000</u>
Contractual Obligations:						
Fire Truck	4.33%	2007	2014	\$ 56,000	\$ 448,000	\$ 137,000
Improvements	3.50%	2004	2012	39,000	270,000	-
Improvements	3.90%	2009	2012	110,000	330,000	-
						<u>\$ 137,000</u>
Notes payable:						
Equipment	2.50%	1999	2018	\$ 2,245	\$ 35,000	\$ -
Equipment	3.90%	2010	2015	201,318	179,955	107,973
Ground Storage	2.87%	2012	2014	383,140	1,100,000	733,000
						<u>\$ 840,973</u>
Capital Lease Obligations:						
Equipment	4.00%	2008	2012	\$ 9,886	\$ 49,432	\$ -

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

NOTE 6. LONG-TERM DEBT - CONTINUED

The following is a summary of long-term debt transactions of the District for the year ended September 30, 2012:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Tax, revenue, and refunding bonds	\$ 7,120,000	\$ 2,355,000	\$ (2,920,000)	\$ 6,555,000	\$ 605,000
Contractual obligations	349,059	-	(212,059)	137,000	67,000
Deferred loss on refunding	(51,493)	-	4,414	(47,079)	(4,414)
Premium on bonding	93,635	136,075	(20,361)	209,349	20,361
	<u>7,511,201</u>	<u>2,491,075</u>	<u>(3,148,006)</u>	<u>6,854,270</u>	<u>687,947</u>
Notes payable	190,209	1,100,000	(449,236)	840,973	401,991
Capital lease obligations	9,888	-	(9,888)	-	-
Compensated absences (restated)	77,916	-	(41,690)	36,226	-
Total Governmental Activities					
Long-term Liabilities	<u>\$ 7,789,214</u>	<u>\$ 3,591,075</u>	<u>\$ (3,648,820)</u>	<u>\$ 7,731,469</u>	<u>\$ 1,089,938</u>

The annual requirements to amortize all debts outstanding as of September 30, 2012, are as follows:

Tax, revenue, and refunding bonds:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 605,000	\$ 229,033	\$ 834,033
2014	420,000	210,873	630,873
2015	430,000	198,283	628,283
2016	445,000	185,393	630,393
2017	465,000	170,968	635,968
2018-2022	2,595,000	611,191	3,206,191
2023-2027	1,045,000	207,531	1,252,531
2028-2031	550,000	59,302	609,302
Total	<u>\$ 6,555,000</u>	<u>\$ 1,872,574</u>	<u>\$ 8,427,574</u>