

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:

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

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

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

Statement of Net Assets

Primary Government:

Cash and cash equivalents	\$ 4,251,741
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:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
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
		<u>751,012</u>
Allowance for uncollectible accounts		<u>(12,051)</u>
Total (net)	\$	<u>738,961</u>
Due from Other Governments:		
Town of Trophy Club	\$	<u>184,910</u>

NOTE 4. INTERFUND TRANSFERS

Transfers between funds during the year are as follows:

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

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	<u>\$ 674,440</u>

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	<u>\$ (99,038)</u>
<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	<u>\$ 12,522,044</u>

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)	<u>77,916</u>	<u>-</u>	<u>(41,690)</u>	<u>36,226</u>	<u>-</u>
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>

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

NOTE 6. LONG-TERM DEBT – CONTINUED

Contractual obligations

Year Ending September 30,	Principal	Interest	Total
2013	\$ 67,000	\$ 5,932	\$ 72,932
2014	70,000	3,031	73,031
Total	<u>\$ 137,000</u>	<u>\$ 8,963</u>	<u>\$ 145,963</u>

Notes payable:

Year Ending September 30,	Principal	Interest	Total
2013	\$ 401,991	\$ 24,431	\$ 426,422
2014	402,991	12,501	415,492
2015	35,991	1,423	37,414
Total	<u>\$ 840,973</u>	<u>\$ 38,356</u>	<u>\$ 879,329</u>

Capital Leases

The asset acquired under a capital lease obligation is included in capital assets at a cost of \$50,173. Accumulated depreciation on the asset as of September 30, 2012 was \$15,075. The lease obligation was fulfilled with \$9,888 of principal payments during fiscal year 2012.

Tax Revenue Bonds

The tax revenue bonds are payable from the proceeds of ad valorem taxes levied upon all property subject to taxation within the District, without limitation as to rate or amount, and are further payable from, and secured by a lien on and pledge of the net revenue to be received from the operation of the District's waterworks and sanitary sewer system.

The outstanding bonds are callable for redemption prior to maturity at the option of the District as follows:

Series 2002 – All maturities from 2013 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2012 at par plus unpaid accrued interest to the fixed date for redemptions. Series 2002 outstanding bonds principal was called and debt legally defeased during 2012. with the issuance of Series 2012 refunding bonds.

Series 2003 (debt issued by the entity formerly known as MUD 2) – All maturities from 2013 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2012 at par plus unpaid accrued interest to the fixed date for redemptions.

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

NOTE 6. LONG-TERM DEBT – CONTINUED

Series 2005 - All maturities from 2014 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2013 at par plus unpaid accrued interest to the fixed date for redemptions.

Series 2012 - All maturities from 2021 to 2023 are callable in principal increments of \$5,000 on or after September 1, 2020 at par plus unpaid accrued interest to the fixed date for redemptions

Contractual obligations and notes payable are liquidated from the general fund. Tax and revenue bonds are liquidated from the debt service fund.

The provisions of the bond resolutions relating to debt service requirements have been met, and the cash allocated for these purposes was sufficient to meet debt service requirements for the year ended September 30, 2012.

Series 2012 Unlimited Tax Refunding Bonds

In February of 2012, Series 2012 Unlimited Tax Refunding Bonds were obtained by the District in the amount of \$2,355,000. Proceeds from the sale of the bonds were used to refund the District's outstanding Series 2002 Bonds in order to restructure such indebtedness while providing a net present value savings of \$336,287 after paying all issuance and other costs on the Bonds. The refunded bonds and interest due thereon, are to be paid from funds deposited with the Escrow Agent. The Escrow Agreement between the District and the Escrow Agent provides that the District deposit with the Escrow Agent an amount sufficient for the final payment on the refunded bonds. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the refunded bonds. All the Refunded Bonds were redeemed on September 1, 2012.

In previous years, the District has legally defeased certain outstanding general obligation debt by placing funds into irrevocable trusts pledged to pay all future debt service payments of the refunded debt. Accordingly, a liability for the defeased debt issue is not included in the District's financial statements. As of September 30, 2012, the following outstanding bonds were legally defeased:

Series	Type	Amount
1995	Unlimited Tax Refunding Bonds	\$ 2,490,000
		<u>\$ 2,490,000</u>

NOTE 7. PROPERTY TAXES

Property taxes are levied as of October 1, on the assessed value listed as of the prior January 1, for all real and certain personal property located in the District and MUD2 (the "Districts"). The appraisal of property within the District is the responsibility of Denton Appraisal District (Appraisal District) as required by legislation passed by the Texas legislature. The Appraisal District is required under such legislation to assess all property within the Appraisal District on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the Appraisal District must be reviewed every five years; however, the District may, at its own expense,

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

NOTE 7. PROPERTY TAXES - CONTINUED

require annual reviews of appraised values. The Districts may challenge appraised values established by the Appraisal District through various appeals and, if necessary, legal action. Property taxes for the Districts are not limited as to rate or amount. In an election held October 7, 1975, the electorate of the Districts authorized the levy of up to \$0.25 per \$100 valuation per District for the operations and maintenance of the Districts. Property taxes attach as an enforceable lien on property as of January 1, following the levy date. Taxes are due by January 31, following the levy date. Property taxes are recorded as receivables when levied. Following is information regarding the 2012 tax levies:

Adjusted taxable values		<u>\$ 1,002,429,000</u>
O & M and Fire tax levy	\$0.11914/\$100	1,167,428
I & S tax levy	\$0.05586/\$100	<u>547,360</u>
Total tax levy	\$0.1750/\$100	<u>\$ 1,714,788</u>

NOTE 8. FUND BALANCE CLASSIFICATIONS AND DEFICITS

The District's authorized their Director to designate certain fund balances as assigned. Excluding unassigned fund balances, the following describes the District's fund balance classifications at September 30, 2012:

Assigned Fund Balances

The District assigned \$305,748 of General Fund fund balances to offset expected fiscal year 2013 budgetary deficits for general operations and the fire department.

The District assigned a total of \$473,883 of General Fund fund balances for the following: \$104,441 for system improvements, \$130,398 for a water-wastewater system study and master plan, \$41,890 for a fire truck, \$82,359 for technology upgrades, and \$112,333 for fiscal year 2013 expected transfers to the Capital Projects Fund.

Fund Balance Deficits

The Capital Projects Fund has a fund balance deficit at September 30, 2012 of \$74,232. In fiscal year 2013, the District intends to transfer funds from the General Fund to eliminate the deficit.

NOTE 9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various nature. Commercial insurance is purchased for the risks of loss to which the District is exposed. Any losses reported but unsettled or incurred and not reported, are believed to be insignificant to the District's basic financial statements.

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

NOTE 9. RISK MANAGEMENT - CONTINUED

Additionally, the District must operate in compliance with rules and regulations mandated for public water supply systems by federal and state governments. The District is subject to compliance oversight by the Texas Commission on Environmental Quality (TCEQ).

NOTE 10. SUBSEQUENT EVENTS

The District has evaluated all events and transactions that occurred after September 30, 2012 up through audit report date, which is the date the financial statements were issued. No subsequent events are identified.

REQUIRED SUPPLEMENTARY INFORMATION

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS)
YEAR ENDED SEPTEMBER 30, 2012

	Budgeted amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues				
Water and wastewater charges	\$ 5,295,777	\$ 5,440,777	\$ 5,210,077	\$ (230,700)
Taxes	1,376,538	1,387,083	1,374,807	(12,276)
Utility fees	338,880	621,000	647,080	26,080
Oversize meter reimbursements	64,000	77,800	10,000	(67,800)
Miscellaneous	19,524	36,714	109,436	72,722
Intergovernmental revenues	10,000	10,000	95,792	85,792
Inspections and tap fees	5,700	6,500	9,009	2,509
Investment income	4,500	4,500	5,706	1,206
Total revenues	7,114,919	7,584,374	7,461,907	(122,467)
Expenditures:				
Current				
Water operations	2,543,616	2,459,823	2,503,331	(43,508)
Fire	874,976	877,601	822,307	55,294
Wastewater operations	693,520	651,732	614,102	37,630
Manager's office	531,866	549,305	556,359	(7,054)
Wastewater collection system	392,796	451,512	260,895	190,617
Utility billing	197,430	211,405	199,201	12,204
Information systems	166,480	166,480	173,386	(6,906)
General government	98,829	131,829	122,787	9,042
Finance	144,910	143,450	114,970	28,480
Facilities management	129,132	123,144	85,314	37,830
Directors	28,122	28,122	16,834	11,288
Human resources	7,556	7,547	2,082	5,465
Capital Outlay	1,091,621	1,611,836	1,562,809	49,027
Debt Service	98,558	636,994	700,982	(63,988)
Total expenditures	6,999,412	8,050,780	7,735,359	315,421
Excess of revenues over expenditures	115,507	(466,406)	(273,452)	192,954
Other financing sources (uses):				
Issuance of debt	-	1,100,000	1,100,000	-
Transfers out	(308,000)	(310,278)	(310,278)	-
Total other financing sources (uses)	(308,000)	789,722	789,722	-
Net change in fund balance	(192,493)	323,316	516,270	192,954
Fund Balances - beginning of year	3,338,441	3,338,441	3,338,441	-
Fund Balances - end of year	\$ 3,145,948	\$ 3,661,757	\$ 3,854,711	\$ 192,954

Notes to Required Supplementary Information:

The District annual budgets are approved on the budgetary basis. The Board of Directors also approves all revisions and appropriations which lapse at each fiscal year-end.

**INDIVIDUAL SCHEDULES AND OTHER
SUPPLEMENTARY INFORMATION REQUIRED
BY TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY (TCEQ)**

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues				
Taxes	\$ 555,680	\$ 555,680	\$ 550,813	\$ (4,867)
Investment income	500	1,700	1,294	(406)
Utility fees	6,120	6,120	6,120	-
Total revenues	<u>562,300</u>	<u>563,500</u>	<u>558,227</u>	<u>(5,273)</u>
Expenditures:				
Debt service				
Principal	565,000	565,000	565,000	-
Interest	301,300	301,300	275,519	25,781
Fees	4,000	4,000	1,800	2,200
Total expenditures	<u>870,300</u>	<u>870,300</u>	<u>842,319</u>	<u>27,981</u>
Deficiency of revenues under expenditures	<u>(308,000)</u>	<u>(306,800)</u>	<u>(284,092)</u>	<u>22,708</u>
Other financing sources				
Premium on bonds	-	-	4,662	4,662
Transfers in	308,000	308,000	308,000	-
Total other financing sources	<u>308,000</u>	<u>308,000</u>	<u>312,662</u>	<u>4,662</u>
Net change in fund balance	-	1,200	28,570	27,370
Fund Balances - beginning of year	<u>107,847</u>	<u>107,847</u>	<u>107,847</u>	<u>-</u>
Fund Balances - end of year	<u>\$ 107,847</u>	<u>\$ 109,047</u>	<u>\$ 136,417</u>	<u>\$ 27,370</u>

Notes to Required Supplementary Information:

The District annual budgets are approved on the budgetary basis. The Board of Directors also approves all revisions and appropriations which lapse at each fiscal year-end. The District's budgetary basis excludes the "Other Financing Sources (Uses)" related to the Series 2012 Unlimited Tax Refunding Bonds which has no effect on total budget variances presented in the above schedule.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-1 SERVICES AND RATES
September 30, 2012

1. Services provided by the District:

- a) Retail Water
- b) Retail Wastewater
- c) Fire Protection
- d) Irrigation
- e) Participates in regional system and/or wastewater service (other than emergency interconnect)

2. Retail service providers:

- a) Retail rates-based on 5/8" meter:

Most prevalent type of meter (if not a 5/8"): 1 inch

	Admin Fee	Minimum Usage	Flat Rate Y/N	Rates per 1,000 Gallons Over Minimum	Usage Levels
WATER	\$ 12.71	0	No	\$ 2.50	0 to 6,000
			No	3.05	7,000 to 17,000
			No	3.30	18,000 to 25,000
			No	3.40	26,000 to 50,000
			No	3.50	51,000 +

Note: Out of district water rates are double the "in-town" rate and are included in the rate order.

WASTEWATER	\$ 12.71	0	No	\$ 2.50	0 to 12,000
			No	-	Caps at 12,000

GOLF COURSE Subject to peak draw rates from Ft Worth water department.

NOTE: all rates noted above were amended effective February 1, 2012.

District employs winter averaging for wastewater usage? No

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-1 SERVICES AND RATES - CONTINUED
September 30, 2012

Total water and wastewater charges per 10,000 gallons usage (including surcharges)
effective February 1, 2012:

First 10,000 gallons used	\$ 77.62
Next 10,000 gallons used	36.25
Next 10,000 gallons used	33.50
Next 10,000 gallons used	34.00
Next 10,000 gallons used	34.00
Next 10,000 gallons used and subsequent	35.00

Maximum residential wastewater charge is for 12,000 gallons or \$42.71

- b) Retail service providers: number of retail water and/or wastewater* connections within the District as of the fiscal year end. Provide actual numbers and single family equivalents (ESFC).

Meter Size	Connections		ESFC Factor	Active ESFC's
	Total	Active		
Unmetered	-	-	1.0	-
Less than 3/4"	2,519.0	2,492.0	1.0	2,492.0
1"	1,306.0	1,265.0	2.5	3,162.5
1 1/2"	19.0	18.0	5.0	90.0
2"	82.0	76.0	8.0	608.0
3"	16.0	15.0	15.0	225.0
4"	13.0	13.0	25.0	325.0
6"	3.0	3.0	50.0	150.0
8"	-	-	80.0	-
10"	-	-	115.0	-
Total Water	<u>3,958.0</u>	<u>3,882.0</u>		<u>7,052.5</u>
Total Wastewater	<u>3,963.0</u>	<u>3,887.0</u>	1.0	<u>3,887.0</u>

- * Number of connections relates to water service if provided. Otherwise, the number of wastewater connections should be provided.

Note: "inactive" means that water and wastewater connections were made, but service is not being provided.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-1 SERVICES AND RATES - CONTINUED
September 30, 2012

3. Total water consumption (in thousands) during the fiscal year:

Gallons pumped into the system	990,456
Gallons billed to customers	914,365
Water accountability ratio	92.3%

4. Standby Fees:

Does the District assess standby fees? Yes

For the most recent fiscal year, FY2012:

	Total Levy	Total Collected	Percentage Collected
Debt Service	\$ 547,360	\$ 544,282	99.4%
Operations and Maintenance	\$ 1,167,428	\$ 1,160,842	99.4%

Have standby fees been levied in accordance with Water Code Section 49.231, thereby constituting a lien on property? No**

** Standby fees are levied by the District and constitute a lien under recorded deed restrictions or covenants pursuant to Section 293.150 of Title 30 of Texas Administrative Code.

5. Location of District:

Counties in which District is located:

a)	Denton
b)	Tarrant

Is the District located entirely in one county? No

Is the District located within a city? Partially

Cities in which District is located:

Town of Trophy Club
Town of Westlake

Is District located within a city's extra territorial jurisdiction (ETJ)? Yes

ETJ's in which District is located:

Town of Trophy Club
Town of Westlake

Is the general membership of the Board appointed by an office outside the District? No

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI - 2
GENERAL FUND EXPENDITURES AND OTHER FINANCING SOURCES
YEAR ENDED SEPTEMBER 30, 2012

	<u>Current Year</u> 2012	<u>Prior Year</u> 2011
Administrative	\$ 1,097,547	\$ 1,042,073
Water Operations	2,503,331	2,271,490
Wastewater Operations	614,102	598,465
Wastewater Collection Systems	260,895	277,775
Information Systems	173,386	123,605
Contribution to Trophy Club Fire Dept	822,307	770,123
Capital Outlay	1,562,809	515,884
Transfers Out and Debt Service	1,011,260	1,130,123
Miscellaneous	<u>-</u>	<u>-</u>
Total Expenditures	<u>\$ 8,045,637</u>	<u>\$ 6,729,538</u>
Number of employees employed by the District:		
Full time Equivalents (FTEs)	32.5	33
Part time	1	1

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-3
TEMPORARY INVESTMENTS
September 30, 2012

<u>Funds</u>	<u>Identification Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance End of Year</u>	<u>Accrued Interest End of Year</u>
General Fund					
TexPool	613300002	0.1572%	Demand	\$ 3,436,553	Paid daily
Debt Service Fund					
TexPool	613300003	0.1572%	Demand	<u>\$ 130,297</u>	Paid daily
Total - All Funds				<u><u>\$ 3,566,850</u></u>	

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

TSI-4

TAXES LEVIED AND RECEIVABLE

September 30, 2012

	General Fund			Debt Service	Total
	Operations	Fire	Total		
Taxes receivable beginning of year	\$ 1,856	\$ 12,319	\$ 14,175	\$ 13,591	\$ 27,765
2011 tax levy	96,910	1,070,518	1,167,428	547,360	1,714,788
Total to be accounted for	98,766	1,082,837	1,181,602	560,951	1,742,553
Less collections and adjustments:					
Current year	(96,363)	(1,064,479)	(1,160,842)	(544,282)	(1,705,124)
Prior years	243	766	1,009	(274)	735
Total to be accounted for	(96,120)	(1,063,713)	(1,159,833)	(544,556)	(1,704,389)
Taxes receivable, end of year	<u>\$ 2,646</u>	<u>\$ 19,124</u>	<u>\$ 21,770</u>	<u>\$ 16,395</u>	<u>\$ 38,165</u>
Taxes receivable by year					
1996 and prior	19	108	127	454	581
1997	7	41	48	150	198
1998	7	44	51	140	191
1999	7	48	55	108	163
2000	7	34	41	122	163
2001	34	134	168	441	609
2002	208	1,848	2,056	4,102	6,158
2003	70	126	196	132	328
2004	17	145	162	210	372
2005	59	199	258	283	541
2006	88	409	497	632	1,129
2007	52	508	560	621	1,181
2008	123	963	1,086	781	1,867
2009	864	3,474	4,338	2,188	6,526
2010	379	4,709	5,088	3,406	8,494
2011	551	6,085	6,636	3,028	9,664
	<u>\$ 2,492</u>	<u>\$ 18,875</u>	<u>\$ 21,367</u>	<u>\$ 16,798</u>	<u>\$ 38,165</u>
Property valuations (in 000's)	F/Y 11/12	F/Y 10/11	F/Y 09/10	F/Y 08/09	F/Y 07/08
Land	\$ 291,214	\$ 247,335	\$ 209,177	\$ 186,574	\$ 213,640
Improvements	755,000	713,265	786,539	737,273	638,560
Personal property	32,358	73,914	80,332	71,091	94,823
Exemptions	(44,303)	(41,345)	(40,057)	(34,027)	(34,405)
	<u>\$ 1,034,269</u>	<u>\$ 993,169</u>	<u>\$ 1,035,991</u>	<u>\$ 960,911</u>	<u>\$ 912,618</u>
Tax rate per \$100 valuation					
Operations	0.009890	0.008790	0.027140	0.014040	0.010200
Fire department	0.109250	0.109250	0.109140	0.116020	0.120860
Debt service	0.055860	0.076960	0.068720	0.114555	0.098940
Tax rate per \$100 valuation	<u>0.175000</u>	<u>0.195000</u>	<u>0.205000</u>	<u>0.244615</u>	<u>0.230000</u>
Tax levy:	\$ 1,714,788	\$ 2,047,972	\$ 2,091,414	\$ 2,380,679	\$ 2,234,909
Percent of taxes collected to taxes levied	99.44%	99.59%	99.69%	99.92%	99.95%

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO.1
TSI-5
LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEAR
September 30, 2012

All Bonded Debt Series			
<u>Due During Fiscal</u> <u>Years Ending</u>	<u>Principal Due</u> <u>1-Sep</u>	<u>Interest Due</u> <u>Mar 1/ Sep 1</u>	<u>Total</u>
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	480,000	155,844	635,844
2019	505,000	140,044	645,044
2020	515,000	123,454	638,454
2021	535,000	105,368	640,368
2022	560,000	86,483	646,483
2023	580,000	65,213	645,213
2024	110,000	43,183	153,183
2025	115,000	37,683	152,683
2026	115,000	33,083	148,083
2027	125,000	28,368	153,368
2028	130,000	23,243	153,243
2029	135,000	17,783	152,783
2030	140,000	12,113	152,113
2031	145,000	6,163	151,163
	<u>\$ 6,555,000</u>	<u>\$ 1,872,574</u>	<u>\$ 8,427,574</u>

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO.1
TSI-5
LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEAR
September 30, 2012

Series 2012 Combination Tax Bonds			
Due During Fiscal Years Ending	Principal Due 1-Sep	Interest Due Mar 1/ Sep 1	Total
2013	\$ 185,000	\$ 60,750	\$ 245,750
2014	190,000	57,050	247,050
2015	195,000	53,250	248,250
2016	200,000	49,350	249,350
2017	205,000	44,350	249,350
2018	210,000	39,226	249,226
2019	225,000	33,976	258,976
2020	225,000	28,350	253,350
2021	230,000	21,600	251,600
2022	240,000	14,700	254,700
2023	250,000	7,500	257,500
	<u>\$ 2,355,000</u>	<u>\$ 410,102</u>	<u>\$ 2,765,102</u>

Series 2010 General Obligation Bonds			
Due During Fiscal Years Ending	Principal Due 1-Sep	Interest Due Mar 1/ Sep 1	Total
2013	\$ 65,000	\$ 78,458	\$ 143,458
2014	70,000	76,183	146,183
2015	70,000	73,733	143,733
2016	75,000	71,283	146,283
2017	80,000	68,658	148,658
2018	85,000	65,858	150,858
2019	85,000	62,883	147,883
2020	90,000	59,908	149,908
2021	95,000	56,758	151,758
2022	100,000	53,433	153,433
2023	105,000	48,433	153,433
2024	110,000	43,183	153,183
2025	115,000	37,683	152,683
2026	115,000	33,083	148,083
2027	125,000	28,368	153,368
2028	130,000	23,243	153,243
2029	135,000	17,783	152,783
2030	140,000	12,113	152,113
2031	145,000	6,163	151,163
	<u>\$ 1,935,000</u>	<u>\$ 917,207</u>	<u>\$ 2,852,207</u>

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO.1
TSI-5
LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEAR
September 30, 2012

Series 2005 Combination Tax Bonds			
Due During Fiscal Years Ending	Principal Due 1-Sep	Interest Due Mar 1/ Sep 1	Total
2013	\$ 295,000	\$ 58,535	\$ 353,535
2014	100,000	48,210	148,210
2015	105,000	44,210	149,210
2016	105,000	40,010	145,010
2017	110,000	35,810	145,810
2018	115,000	31,410	146,410
2019	120,000	26,810	146,810
2020	125,000	22,010	147,010
2021	130,000	17,010	147,010
2022	135,000	11,550	146,550
2023	140,000	5,880	145,880
	<u>\$ 1,480,000</u>	<u>\$ 341,445</u>	<u>\$ 1,821,445</u>

Series 2003 Combination Tax Bonds			
Due During Fiscal Years Ending	Principal Due 1-Sep	Interest Due Mar 1/ Sep 1	Total
2013	\$ 60,000	\$ 31,290	\$ 91,290
2014	60,000	29,430	89,430
2015	60,000	27,090	87,090
2016	65,000	24,750	89,750
2017	70,000	22,150	92,150
2018	70,000	19,350	89,350
2019	75,000	16,375	91,375
2020	75,000	13,186	88,186
2021	80,000	10,000	90,000
2022	85,000	6,800	91,800
2023	85,000	3,400	88,400
	<u>\$ 785,000</u>	<u>\$ 203,821</u>	<u>\$ 988,821</u>

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-6
CHANGES IN LONG-TERM BONDED DEBT
September 30, 2012

	Series 2002 Combination Tax	Series 2003 Combination Tax	Series 2005 Combination Tax	Series 2010 Combination Tax	Series 2012 Unlimited Tax and Refunding	Totals
Interest rate	4.00-5.50%	3.10-4.25%	2.97-4.20%	3.50-5.00%	2.00-3.00%	
Date interest payable	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	3/1 & 9/1	
Maturity date	9/1/2023	9/1/2023	9/1/2023	9/1/2031	9/1/2023	
Bonds outstanding at beginning of year	\$ 2,510,000	\$ 840,000	\$ 1,770,000	2,000,000	\$ -	\$ 7,120,000
Bond Issuances	-	-	-	-	2,355,000	2,355,000
Retirements of principal	(2,510,000)	(55,000)	(290,000)	(65,000)	-	(2,920,000)
Bonds outstanding at end of fiscal year	<u>\$ -</u>	<u>\$ 785,000</u>	<u>\$ 1,480,000</u>	<u>\$ 1,935,000</u>	<u>\$ 2,355,000</u>	<u>\$ 6,555,000</u>
Retirements of interest	<u>\$ 62,511</u>	<u>\$ 33,215</u>	<u>\$ 68,685</u>	<u>\$ 80,733</u>	<u>\$ 30,375</u>	<u>\$ 275,519</u>

Paying agent's name & city: The Bank of New York Mellon, Newark, NJ
PO Box 2320
All Series Dallas, TX. 75221-2320

Bond Authority	General Obligation Bonds
Amount authorized by voters	\$ 29,094,217
Amount issued	<u>(23,325,000)</u>
Remaining to be issued	<u>\$ 5,769,217</u>

The general obligation bonds were authorized on October 7, 1975

Debt Service Fund cash and cash equivalents balance as of September 30, 2012: \$ 136,417

Average annual debt service payment (principal & interest) for remaining term of debt: \$ 443,556

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TS1-7 COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES-FIVE YEARS
GENERAL FUND
September 30, 2012

	Amounts					Percent of total revenue				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
REVENUE										
Ad valorem property taxes	\$ 1,374,808	\$ 1,311,296	\$ 1,491,594	\$ 1,283,705	\$ 1,002,608	16.1%	15.6%	26.2%	21.1%	20.3%
Water and wastewater charges	5,210,077	5,323,244	3,919,084	3,721,868	3,678,859	60.9%	75.5%	68.8%	61.3%	74.5%
Utility Fees	647,080	165,600	80,500	512,200	-	7.6%	2.3%	1.4%	8.5%	0.0%
Inspection and tap fees	9,009	8,560	5,775	4,975	22,550	0.1%	0.1%	0.1%	0.1%	0.5%
Interest earned	5,706	5,534	6,171	20,755	69,447	0.1%	0.1%	0.1%	0.3%	1.4%
Other Financing Sources - Debt Issue	1,100,000	-	-	330,000	49,432	12.8%	0.0%	0.0%	5.4%	1.0%
Miscellaneous and other	215,227	240,831	191,498	199,780	116,295	2.5%	3.4%	3.4%	3.3%	2.4%
Total revenue	\$ 8,561,907	\$ 7,055,065	\$ 5,694,592	\$ 6,076,283	\$ 4,935,191	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENDITURES										
Administrative	1,097,547	1,042,073	993,986	1,297,613	905,052	12.8%	14.8%	17.5%	21.4%	18.3%
Water operations	2,503,331	2,271,490	1,882,511	1,811,385	1,934,782	29.2%	32.2%	33.1%	29.8%	39.2%
Transfers out and debt service	1,011,260	1,130,123	558,000	383,009	-	11.8%	16.0%	9.8%	6.3%	0.0%
Wastewater operations	614,102	598,465	711,382	989,388	500,224	7.2%	8.5%	12.5%	16.4%	10.1%
Wastewater collection system	260,895	277,775	308,798	294,869	408,948	3.0%	3.9%	5.4%	4.9%	8.3%
Information systems	173,386	123,605	182,658	175,698	187,908	2.0%	1.8%	3.2%	2.9%	3.8%
Contribution to Trophy Club Fire Dept	822,307	770,123	876,521	783,736	902,353	9.6%	10.9%	15.4%	12.9%	18.3%
Capital outlay	1,562,809	515,884	-	-	29,379	18.3%	7.3%	0.0%	0.0%	0.6%
Miscellaneous	-	-	-	-	45,457	0.0%	0.0%	0.0%	0.0%	0.9%
Total expenditures	\$ 8,045,637	\$ 6,729,536	\$ 5,513,856	\$ 5,745,698	\$ 4,915,113	94.0%	95.4%	96.8%	94.6%	99.5%
Excess (deficiency) of revenues over (under) expenditures	\$ 516,270	\$ 325,527	\$ 180,736	\$ 330,585	\$ 24,078	6.0%	4.6%	3.2%	5.4%	0.5%
Total active retail water and/or wastewater connections	3,887	3,554	3,361	3,161	3,092					

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
TSI-7 COMPARATIVE SCHEDULES OF REVENUES AND EXPENDITURES-FIVE YEARS (Continued)
DEBT SERVICE FUND
September 30, 2012

REVENUE	Amounts					Percentage				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
Ad valorem property taxes	547,587	771,631	740,420	1,100,115	1,302,763	62.9%	57.9%	52.9%	73.4%	96.1%
Penalties and interest	3,226	6,018	-	11,885	-	0.4%	0.5%	0.0%	0.8%	0.0%
Transfers in	308,000	554,100	653,000	383,009	-	35.4%	41.6%	46.7%	25.5%	0.0%
Interest earned	1,294	985	4,848	4,105	23,326	0.1%	0.1%	0.3%	0.3%	1.7%
Miscellaneous and other	10,782	1,000	1,000	-	29,379	1.2%	0.0%	0.1%	0.0%	2.2%
Total revenue	870,889	1,332,734	1,399,268	1,499,114	1,355,468	100.0%	100.0%	100.0%	100.0%	100.0%
EXPENDITURES										
Principal retirement	565,000	1,115,000	1,055,000	1,025,000	975,000	64.9%	83.7%	75.4%	68.4%	71.9%
Interest and fiscal charges	277,319	382,019	311,570	352,194	390,565	31.8%	28.7%	22.3%	23.5%	28.8%
Total expenditures	842,319	1,497,019	1,366,570	1,377,194	1,365,565	63.2%	112.3%	97.7%	91.9%	100.7%
Excess (deficiency) of revenues over (under) expenditures	\$ 28,570	\$ (164,285)	\$ 32,698	\$ 121,920	\$ (10,097)	36.8%	-12.3%	2.3%	8.1%	-0.7%

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**Financial Advisory Services
Provided By:**
SWS | **SOUTHWEST**
GROUP | **SECURITIES**
INVESTMENT BANKERS

FINAL

\$1,905,000.00
TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX REFUNDING BONDS,
SERIES 2013

PURCHASE CONTRACT

August 14, 2013

President and Board of Directors
Trophy Club Municipal Utility District No. 1
100 Municipal Drive
Trophy Club, Texas 76262

Ladies and Gentlemen:

The undersigned (the *Underwriters*), acting through the Authorized Representative designated below (the *Authorized Representative*), offers to enter into the following agreement (this *Purchase Contract*) with Trophy Club Municipal Utility District No. 1 (the *District*) which, upon your acceptance of this offer, will be binding upon you and upon the Underwriters.

The offer contained herein is made subject to your acceptance of this Purchase Contract on or before 10:00 P.M., Central time, on the date hereof and; if not so accepted, will be subject to withdrawal by the Underwriters upon notice delivered to the District by the Underwriters at any time prior to the acceptance hereof by the District. Capitalized terms not defined herein relating to the Bonds shall have the meanings assigned in the Bond Order or the Official Statement (as each of such terms are herein defined).

SAMCO Capital Markets, Inc., represents that it has been duly authorized to execute this Purchase Contract and has been duly authorized to act hereunder as the Authorized Representative. All actions which may be taken hereunder by the Underwriters may be taken by the Authorized Representative alone. In as much as this purchase and sale represents a negotiated transaction, the District understands, and hereby confirms, that the Underwriters are not acting as fiduciaries of the District, but rather are acting solely in their individual capacities as underwriters for their own accounts as further described in Section 20 hereof.

1. Purchase and Sale of the Bonds. Upon the terms and conditions and upon the basis of the respective representations, warranties, and covenants set forth herein, the Underwriters hereby agree to purchase from the District, and the District hereby agrees to sell and deliver to the Underwriters, all (but not less than all) of an aggregate of \$1,905,000.00 original principal amount of TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1 UNLIMITED TAX REFUNDING BONDS, SERIES 2013 (the *Bonds*). The Bonds are stated to mature on September 1 in each of the years 2014 through 2023. The Bonds shall be dated July 1, 2013 (the *Bond Date*) and shall have the stated maturities, be offered at the prices, be subject to redemption, if any, and bear interest at the rates per annum, all as set forth in the Bond Order

(hereafter defined) and described in the Official Statement. The purchase price for the Bonds is \$1,968,056.50 (representing a principal amount of \$1,905,000.00 of Bonds, plus an original issue reoffering premium of \$78,832.75 pertaining to the Bonds, and less an Underwriters' discount of \$15,776.25), plus accrued interest on the Bonds from the Bond Date through the Closing Date.

The Bonds are being issued pursuant to the provisions of the Constitution and general laws of the State of Texas, including (particularly) Article XVI, Section 59, as amended, Texas Constitution, Chapter 1207, as amended, Texas Government Code (*Chapter 1207*) and Chapters 49 and 54, as amended, Texas Water Code (collectively, the *Act*), and are secured by a pledge of ad valorem taxes of the District, without limit as to rate or amount, under the provisions of an order authorizing their issuance and sale adopted by the District on June 18, 2013 (the *Order*). In the Order, the District's Board of Directors (the *Board*) delegated certain matters relating to approving the final terms of sale of the Bonds to certain representatives of the District (each, a *Pricing Officer*), as permitted by the provisions of Chapter 1207. Pursuant to this delegation, a "Pricing Certificate", attached hereto as Schedule I (the *Pricing Certificate*), evidencing final terms of sale of the Bonds was executed on the date hereof. The Pricing Certificate and the Order are sometimes collectively referred to herein as the "*Bond Order*."

A portion of the proceeds received by the District from the sale of the Bonds pursuant hereto and certain other funds of the District, if any, shall be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the *Escrow Agent*), under and pursuant to the escrow agreement (the *Escrow Agreement*) referred to in the Bond Order for the purpose of depositing cash and/or purchasing certain obligations authorized by Texas law for such purpose (the *Defeasance Securities*), if any, which shall mature and the interest on which shall be payable at such times and in such amounts so as to provide money which, together with cash balances from time to time on deposit in the trust account established under the Escrow Agreement (the *Escrow Fund*), will be sufficient to pay the principal of and interest on the Refunded Bonds when due at stated maturity or prior redemption, as applicable.

2. Public Offering. The Underwriters agree to make a bona fide public offering of all of the Bonds at prices not to exceed the public offering prices set forth on page ii of the Official Statement and may subsequently change such offering prices without any requirement of prior notice. The Underwriters agree, for the purpose of enabling the District to comply with their obligations set forth in Section 5(m) of this Purchase Contract, to inform the District of the date of expiration of the initial offering period for the Bonds. The Underwriters may offer and sell Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering prices (or yields higher than the public offering yields) stated on page ii of the Official Statement. On or before the Closing, the Authorized Representative shall execute the Issue Price Certificate prepared by Bond Counsel (upon review and approval by counsel to the Underwriters) verifying the initial offering prices at which a substantial amount of each stated maturity of the Bonds was sold (or was reasonably expected to be sold) to the public.

3. Official Statement. The District hereby ratifies, authorizes, and approves the distribution and use by the Underwriters of the Official Statement in connection with the offering and sale of the Bonds. In addition, the District hereby ratifies and approves the distribution of the Preliminary Official Statement dated July 1, 2013 relating to the Bonds (the *Preliminary*

Official Statement) in a "designated electronic format" (as defined in Rule G-32 (*Rule G-32*) of the Municipal Securities Rulemaking Board (the *MSRB*)), which Preliminary Official Statement was authorized in the Bond Order. In addition, the District hereby approves use of the Preliminary Official Statement by the Underwriters prior to the date hereof in connection with the offering and sale of the Bonds. The District further authorizes and approves the distribution and use by the Underwriters of the Official Statement in connection with the offering and sale of the Bonds. The District shall within seven days of the date hereof (exclusive of Saturdays, Sundays, and legal holidays) provide the final Official Statement being a finalized version of the Preliminary Official Statement, dated the date hereof (such final Official Statement, together with the Schedule and Appendices thereto, as further amended or supplemented only in the manner hereinafter provided, is hereinafter defined and referred to as the *Official Statement*), or cause the Official Statement to be provided, (i) in a "designated electronic format" consistent with the provisions of Rule G-32 and (ii) in a printed format in such form as the Authorized Representative may reasonably request in order to enable the Underwriters to comply with their obligations set forth in 17 C.F.R. Section 240.15c2-12 (*Rule 15c2-12*) and the rules of the MSRB. In the event that the number of copies of the Official Statement supplied to the Underwriters pursuant to the immediately preceding sentence shall prove to be insufficient to enable the Underwriters to comply with their obligations under paragraph (b) of Rule 15c2-12, the District agrees to make available from time to time such additional printed or photostatic copies of the Official Statement as may be reasonably required to enable the Underwriters to comply with their obligations under Rule 15c2-12 and the rules of the MSRB. The District hereby represents and warrants that the Preliminary Official Statement was deemed final by the District as of its date, except for the omission of such information which is dependent upon the final pricing of the Bonds for completion, all as permitted to be excluded by Section (b)(1) of Rule 15c2-12.

4. Security Deposit. Delivered to the District herewith is a corporate check of the Authorized Representative payable to the order of the District in the amount of \$19,000.00. The District agrees to hold such check uncashed until the Closing to ensure the performance by the Underwriters of their obligations to purchase, accept delivery of, and pay for the Bonds at the Closing. Concurrently with the payment by the Underwriters of the purchase price of the Bonds at the Closing, the District shall return such check to the Authorized Representative. Should the District fail to deliver the Bonds at the Closing, or should the District be unable to satisfy the conditions of the obligations of the Underwriters to purchase, accept delivery of, and pay for the Bonds, as set forth in this Purchase Contract (unless waived by the Authorized Representative), or should such obligations of the Underwriters be terminated for any reason permitted by this Purchase Contract, such check shall immediately be returned to the Authorized Representative. In the event the Underwriters fail (other than for a reason permitted hereunder) to purchase, accept delivery of, and pay for the Bonds at the Closing as herein provided, such check shall be retained and cashed by the District as and for full liquidated damages for such failure of the Underwriters and for any defaults hereunder on the part of the Underwriters. Acceptance of such check by the District shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults, and neither the District nor any other person shall have any further action for damages, specific performance, or any other legal or equitable relief against the Underwriters. The Underwriters and the District understand that in such event the District's actual damages may be greater or may be less than such amount. Accordingly, the Underwriters hereby waive any right to claim that the District's actual damages are less than

such amount, and the District's acceptance of this offer shall constitute a waiver of any right the District may have to additional damages from the Underwriters. The Authorized Representative hereby agrees not to stop or cause payment on said check to be stopped unless the District has breached any of the terms of this Purchase Contract.

5. Representations and Warranties. The District hereby represents and warrants to the Underwriters as follows:

(a) The District is a conservation and reclamation district, a political subdivision of the State of Texas (the *State*), and a governmental agency and a body politic and corporate, duly created, organized, and existing under the Constitution and laws of the State.

(b) The District (i) has the power and is authorized under the laws of the State, including particularly the Act, to (1) issue the Bonds for the purposes for which they are to be issued, and (2) enter into and perform this Purchase Contract and the Escrow Agreement, and (ii) at the Closing, will be in compliance in all material respects with the terms of the Act, this Purchase Contract, the Bond Order, and the Escrow Agreement.

(c) The District has the requisite right, power, and authority (i) to adopt the Order and to execute the Pricing Certificate, (ii) to execute, deliver, and perform its obligations under this Purchase Contract and the Escrow Agreement, (iii) to make the deposits described in the Official Statement to accomplish the defeasance of the Refunded Bonds, and (iv) to consummate the transactions described in such instruments and in the Official Statement, and the District has complied with all provisions of applicable law in all matters relating to such transactions.

(d) The information with respect to the District and the Bonds contained in the Preliminary Official Statement is, as of the date hereof, and the information contained in the Official Statement, as of the date of Closing, will be true and correct in all material respects, and such information does not contain and will not contain any untrue statement of a material fact and does not omit and will not omit to state a material fact required to be stated therein or necessary to make the statements in the Preliminary Official Statement, as of the date hereof, or in the Official Statement, as of the date of Closing, in light of the circumstances under which they were made, not misleading.

(e) The District has duly authorized all necessary action to be taken by it for (i) the issuance and sale of the Bonds upon the terms set forth herein and in the Official Statement and the Bond Order; (ii) the approval of the Official Statement (which the District represents has been reviewed and approved by its governing body or a designated official thereof and the final form of which has been authorized to be distributed in a "designated electronic format") and the signing of the Official Statement by a duly authorized officer; and (iii) the execution, delivery, and receipt of this Purchase Contract, the Bonds, the Pricing Certificate, the Paying Agent/Registrar Agreement, the Escrow Agreement, and any and all such other agreements and documents as may be required to be executed, delivered, and received by the District in order to carry out, give effect to, and consummate the transactions described herein and in the Bonds, the Bond Order, and the Official Statement.

(f) The Bond Order is, and the Bond Order and the Escrow Agreement on the date of the Closing will be, in full force and effect, and on the date of Closing will have been duly approved, executed and/or delivered (as applicable) by the District. The Bond Order is, and the Bond Order and the Escrow Agreement, on the date of the Closing, will be the legal and valid acts of the District, and, assuming the due authorization, execution, and delivery of such instruments by the other parties thereto and their authority to perform such instruments, this Purchase Contract is, and the Purchase Contract, the Escrow Agreement, and the Paying Agent/Registrar Agreement on the date of the Closing will be, the legal, valid, and binding agreements of the District, enforceable (assuming the due authorization and execution by the other parties to such documents) in accordance with their terms (except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, and similar laws affecting creditors' rights generally and general principles of equity that permit the exercise of judicial discretion).

(g) The Bonds, when issued, delivered, and paid for as herein provided, will have been duly authorized, executed, and issued and will constitute legal, valid, and binding obligations of the District entitled to the benefits of the Bond Order and the Bonds and the Bond Order are enforceable in accordance with their terms (except to the extent that such enforceability may be limited by bankruptcy, insolvency, reorganization, and similar laws affecting creditors' rights generally and general principles of equity that permit the exercise of judicial discretion).

(h) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry, or investigation at law or in equity or before or by any court, public board, or body pending against the District or, to the knowledge of the District, threatened against or affecting the District (or, to the knowledge of the District, any basis therefor) contesting the due organization and valid corporate existence of the District or the validity of the Act or wherein an unfavorable decision, ruling, or finding would adversely affect (i) the transactions described herein or in the Official Statement, (ii) the validity or due adoption of the Order, or the validity, due authorization, and execution of the Bonds, the Pricing Certificate, this Purchase Contract, the Paying Agent/Registrar Agreement, the Escrow Agreement, or any agreement or instrument to which the District is a party and which is to be used in the consummation of the transactions described herein or in the Official Statement, (iii) the defeasance or payment of the Refunded Bonds, or (iv) the federal tax-exempt status of the interest on the Bonds. Except as described in the Official Statement, the District 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 District, would have a materially adverse effect on the financial condition of the District.

(i) The authorization, execution, and delivery by the District of the Official Statement, this Purchase Contract, the Pricing Certificate, the Bonds, the Paying Agent/Registrar Agreement, the Escrow Agreement, and the other documents described herein and in the Official Statement, the adoption of the Order by the District, the consummation of the transactions described herein and therein, and compliance by the District with the provisions of such instruments, do not and will not conflict with or constitute on the part of the District a breach of or a default under any provision of the Constitution of the State of Texas or the Act or any other existing law, court or administrative decision, regulation, decree, or order or any agreement,

indenture, mortgage, lease, or other instrument by which the District or its properties are or, on the date of Closing, will be bound or affected.

(j) Other than the opinion of the Attorney General of the State of Texas (the *Attorney General*) approving the Bonds as required by law and the registration of the Bonds by the Comptroller of Public Accounts of the State of Texas (the *Comptroller*) (which approvals and registration shall have been duly obtained or effected on or before the date of the Closing), and other than such permits, consents, licenses, notices, and filings, if any, as may be required under the securities or blue sky laws of any jurisdiction as may be reasonably requested by the Underwriters (all of which, subject to Section 11(c) hereof, shall have been duly made or obtained by the Underwriters on or before the date of the Closing), no permit, consent, license, notice, or filing with governmental authorities is necessary or required (i) to permit the District to execute and deliver this Purchase Contract, the Pricing Certificate, the Escrow Agreement, or the other instruments and documents described herein or therein, to perform its obligations hereunder or thereunder, or to consummate the transactions described herein or therein, or (ii) to issue and deliver the Bonds as described herein and in the Official Statement, or to perform in accordance with the terms hereof and thereof, or (iii) to adopt and enact the Order, execute the Pricing Certificate, or to perform in accordance with the terms thereof, or to issue and sell the Bonds as therein and in the Official Statement provided.

(k) The financial statements of the District included in Appendix D to the Official Statement thereto present fairly the financial position and the results of operations of the District at the respective dates and for the respective periods indicated thereon, in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods presented.

(l) The District, to the extent heretofore requested in writing by the Authorized Representative, has delivered to the Authorized Representative true, correct, complete, and legible copies of all information, applications, reports, or other documents of any nature whatsoever submitted to any rating agency for the purpose of obtaining a rating for the Bonds, and, in each instance, true, correct, complete, and legible copies of all correspondence or other communications relating, directly or indirectly, thereto.

(m) If, after the date of this Purchase Contract to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 (the earlier of (i) 90 days from the end of the underwriting period (as defined in Rule 15c2-12) and (ii) the time when the Official Statement is available to any person from the MSRB, but in no case less than 25 days after the end of the underwriting period for the Bonds), the District becomes aware of any fact or event which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact required to be stated therein or necessary to make the statements therein, not misleading, or if it is necessary to amend or supplement the Official Statement to comply with law, the District will notify the Authorized Representative (and for the purposes of this clause provide the Authorized Representative with such information as it may from time to time request), and if, in the reasonable opinion of the Authorized Representative, such fact or event requires preparation and publication of a supplement or amendment to the Official Statement, the District will forthwith prepare, in a

"designated electronic format", and furnish, at the District's own expense (in a manner approved by the Authorized Representative, and which approval will not be unreasonably withheld), such amendment or supplement to the Official Statement so that the statements in the Official Statement as so amended and supplemented will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading or so that the Official Statement will comply with law. If such notification shall be subsequent to the Closing, the District shall furnish such legal opinions, certificates, instruments and other documents as the Authorized Representative may deem necessary to evidence the truth and accuracy of such supplement or amendment to the Official Statement.

(n) Between the date of this Purchase Contract and the date of the Closing the District shall disclose to, discuss with, and provide any information reasonably requested by, the Underwriters in connection with any breach, default, or failure to comply, of whatever nature and of which the District has knowledge, regarding any law, loan agreement, indenture, or other agreement to which the District is a party or to which the District or any of the property or assets of the District is otherwise subject.

(o) The District has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that the District is an issuer whose arbitrage certificates may not be relied upon.

(p) To the best of the knowledge and belief of the District, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Bonds; and the District has entered into previous continuing disclosure undertakings in a written contract or agreement specified in subsection (b)(5)(i) of Rule 15c2-12 and, except as disclosed in the Official Statement, has not failed to comply with any such undertakings in any material respect during the past five years.

(q) The Bonds and the Order conform to the description thereof contained in the Official Statement under the caption "THE BONDS"; the proceeds of the sale of the Bonds will be applied generally as described in the Official Statement under the caption "SOURCES AND USES OF FUNDS" and the continuing disclosure undertaking to comply with Rule 15c2-12 (the *Undertaking*) described in the Order, conforms to the description thereof contained in the Official Statement under the caption "CONTINUING DISCLOSURE OF INFORMATION."

(r) The District will apply, or cause to be applied, the proceeds from the sale of the Bonds as provided in and subject to all of the terms and provisions of the Bond Order and the District will not take or omit to take any action which action or omission will adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds.

(s) The District is not in default under or otherwise not compliant with any order, resolution, proclamation, filing or reporting requirement or other manner of administrative requirement of the Texas Commission on Environmental Quality (the *TCEQ*) promulgated by Texas law or administrative rule or policy and no action or approval of the TCEQ is required

with respect to the issuance of the Bonds or the refunding of the Refunded Bonds that has not been obtained (or will be obtained by the Closing Date) by the District.

6. Representations and Covenants of the Underwriters. The Authorized Representative hereby agrees to file the Official Statement and the Escrow Agreement with the MSRB through its Electronic Municipal Market Access (*EMMA*) system. Unless otherwise notified in writing by the Authorized Representative, the District can assume that the end of the underwriting period for purposes of Rule 15c2-12 is the date of the Closing.

7. Delivery of, and Payment for, the Bonds. The consummation of the sale of the Bonds to the Underwriters (the *Closing*) shall be held at the offices of McCall, Parkhurst & Horton L.L.P., 717 North Harwood Street, Suite 900, Dallas, Texas 75201. The Closing shall be held at 10:00 a.m., Dallas, Texas time, on September 17, 2013, or at such other time or date as shall be mutually agreed upon by the District and the Authorized Representative.

Subject to the conditions stated herein, at the Closing, the District will deliver, or cause to be delivered, the Bonds to the Authorized Representative (being one initial Bond) in temporary form, duly executed and registered as hereinafter provided, together with the other documents hereinafter mentioned, and the Underwriters will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1 hereof in immediately available funds by federal funds wire transfer to or for the account of the District. It is anticipated that the definitive Bonds (replacing the cancelled initial Bond) shall be issued in the form of one typewritten or printed bond for each maturity, registered in the name of Cede & Co., as the registered owner and nominee for The Depository Trust Company, New York, New York (*DTC*) in the same aggregate principal amount of the Bonds. Delivery of the definitive Bonds as aforesaid shall be made at the place in New York, New York, designated by DTC or to the Paying Agent/Registrar acting on behalf of DTC. The District will have the opinion of Bond Counsel attached to or printed on the Bonds. The definitive Bonds shall be in fully registered form, bear proper CUSIP numbers, and be in authorized denominations and registered in such names and in such amounts as the Authorized Representative may request. The definitive Bonds shall be made available to the Authorized Representative for review not less than two full business days prior to the Closing. In lieu of the foregoing, such Bonds shall be held in safe custody by the Paying Agent/Registrar or any authorized agent for the Paying Agent/Registrar. The Paying Agent/Registrar shall release or authorize the release of such Bonds at the Closing from safe custody to the Underwriters upon receipt by the District of payment for the Bonds as provided herein. In addition, the District and the Authorized Representative agree that there shall be a preliminary Closing held at such place as the District and the Authorized Representative shall mutually agree, commencing at least 24 hours prior to the Closing; provided, however, that such preliminary Closing shall not be required if Bond Counsel provides a complete transcript of proceedings acceptable to the Underwriters relating to the Bonds to the counsel for the Underwriters at least 24 hours prior to the Closing. Drafts of all documents to be delivered at the Closing shall be prepared and distributed to the parties and their counsel for review at least two business days prior to the Closing.

8. Certain Conditions to Underwriters' Obligations. The obligations of the Underwriters hereunder are subject to the satisfaction on or before the date of the Closing of each of the following conditions (unless waived by the Authorized Representative in writing):

(a) The representations and warranties of the District contained herein or on any certificate or other document delivered pursuant to the provisions hereof shall be true on and as of the date of the Closing as though such representations and warranties were made on and as of the date of the Closing.

(b) The District shall have performed and complied with all agreements and conditions required by this Purchase Contract and the Order to be performed or complied with by it prior to or on the date of the Closing.

(c) At the time of the Closing, the Order shall be in full force and effect, and the Order shall not have been amended, modified, or supplemented, and the Official Statement shall not have been amended, modified, or supplemented, except as may have been agreed to in writing by the Authorized Representative.

(d) At the time of the Closing, all official action of the District related to the Bond Order shall be in full force and effect and shall not have been amended, modified, or supplemented, except as may have otherwise been agreed to in writing by the Authorized Representative.

(e) The District shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money.

(f) Except as described in the Official Statement, no suit, action, investigation, or legal or administrative proceeding shall be threatened or pending before any court or governmental agency which is likely to result in the restraint, prohibition, or the obtaining of damages or other relief in connection with the issuance of the Bonds or the consummation of the transactions described herein, or the levy or charge, collection, or application of the taxes, pledged to pay the principal of and interest on the Bonds which would have a material adverse effect on the financial condition of the District, or which, in the reasonable opinion of the Authorized Representative, would have a material adverse effect on the transactions described herein.

(g) All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions described in this Purchase Contract shall be reasonably satisfactory in legal form and effect to counsel for the Underwriters.

(h) At or prior to the Closing, the Authorized Representative shall have received one (1) executed copy of each of the following documents:

(1) the opinion, dated the date of the Closing, of McCall, Parkhurst & Horton L.L.P., as bond counsel (*Bond Counsel*), delivered to the Underwriters, relating to, among other things, the validity of the Bonds, the defeasance of the Refunded Bonds, and the tax-exempt status of the interest on the Bonds for federal income tax purposes, in substantially the form attached as Appendix C to the Official Statement;

(2) the supplemental opinion, dated the date of the Closing, of Bond Counsel attached hereto in substantially final form as Exhibit A hereto, including reliance language with respect to the Bond Counsel opinion referenced in Section 8(h)(1) hereof;

(3) an opinion, dated the date of the Closing, of Fulbright & Jaworski LLP of San Antonio, Texas, a member of Norton Rose Fulbright, counsel for the Underwriters, in substantially the form of Exhibit B hereto;

(4) a certificate of the District, dated the date of the Closing and signed on its behalf by a Pricing Officer, acting solely in his official and authorized capacity, in form satisfactory to counsel to the Underwriters, to the effect that (a) the representations and warranties of the District herein, or in any certificate or document delivered by the District pursuant to the provisions hereof, are true and correct in all material respects on and as of the date of the Closing as though such representations and warranties were made on and as of the date of the Closing, (b) all agreements or conditions to be performed or complied with by the District hereunder on or prior to the date of the Closing have been performed or complied with, and (c) there has not been any materially adverse change or any development involving a prospective change in the financial condition or otherwise of the District since September 30, 2012, the latest date as of which audited financial information is available;

(5) the Official Statement executed (or approved as evidenced by a conformed copy thereof) on behalf of the District by the President and Secretary of the Board of Directors;

(6) a copy of the Order and all other resolutions or orders or other proceedings of the District authorizing the issuance and sale of the Bonds and the execution and delivery of this Purchase Contract, the Pricing Certificate, the Escrow Agreement, the Paying Agent/Registrar Agreement, and the Official Statement, in each case certified by the Secretary of the District, as having been duly adopted and being in full force and effect and as being true, accurate, and complete copies thereof;

(7) an unqualified opinion, dated on or prior to the date of the Closing, of the Attorney General, relating to the legality and validity of the Bonds, the defeasance of the Refunded Bonds, and approving the Bonds as required by law;

(8) evidence satisfactory to the Authorized Representative that the Bonds have been registered by the Comptroller of Public Accounts of the State of Texas as required by law;

(9) an executed copy of the Escrow Agreement relating to the Refunded Bonds;

(10) a letter from Standard & Poor's Rating Service, a Standard & Poor's Financial Services LLC business (S&P), indicating a rating for the Bonds which is not lower than "AA-" without regard to credit enhancement;

(11) a certificate, dated the date of the Closing, executed by a Pricing Officer, to the effect that (i) except to the extent disclosed in the Official Statement, no suit, action, investigation, or legal or administrative proceeding is pending or, to the knowledge of such persons, threatened, before any court or governmental agency (A) to restrain, enjoin, prohibit, or obtain damages or other relief in connection with the issuance or delivery of the Bonds, the consummation of the transactions described herein, or the levy, collection, or application of the taxes pledged to pay the principal of and interest on the Bonds, or the pledge thereof, or that

would otherwise adversely affect in a material manner the District's financial condition, its ability to pay the principal of and interest on the Bonds, or its ability to consummate the transactions described herein; (B) contesting or questioning the legal existence or boundaries of the District or the right to hold office of any member of the governing body of the District or any other elected or appointed official of the District or (C) in any way contesting or affecting the validity of the Bonds, the Order, the Pricing Certificate, the Paying Agent/Registrar Agreement, the Escrow Agreement, or this Purchase Contract, or contesting the powers of the District to issue the Bonds, or contesting the authorization of the Bonds, the execution of the Pricing Certificate, the Paying Agent/Registrar Agreement, this Purchase Contract, the Escrow Agreement, or the adoption of the Bond Order, or contesting in any way the accuracy, completeness, or fairness of the Preliminary Official Statement (to the extent not modified by the Official Statement) or the Official Statement; and (ii) to the best of such persons' knowledge, no event affecting the District has occurred since the date of the Official Statement which should be disclosed therein for the purpose for which it is to be used or which it is necessary to be disclosed therein in order to make the statements and information therein not misleading in any respect; and

(12) the Pricing Certificate, as well as a Rule 15c2-12 Certificate pertaining to the distribution of the Preliminary Official Statement by the Underwriters, in each case executed by a Pricing Officer;

(13) a certificate as to the sufficiency of funds deposited to the escrow fund pursuant to the Escrow Agreement to accomplish the defeasance of the Refunded Bonds, which certificate has been signed by either the District's financial advisor or the paying agent/registrar for the Refunded Bonds; and

(14) a certificate of the District, dated the date of the Closing, and signed by an appropriate official of the District, in the form approved by Bond Counsel and satisfactory to the Authorized Representative and Underwriters' counsel, with respect to arbitrage matters.

(i) The District shall have returned the corporate check of the Authorized Representative delivered to the District pursuant to Section 4 hereof.

(j) The Underwriters shall receive such additional legal opinions, certificates, proceedings, instruments, and other documents as counsel to the Underwriters or Bond Counsel may reasonably request to evidence compliance by the District with legal requirements, the truth and accuracy, as of the time of Closing, of the representations and warranties of the District contained herein, and the due performance or satisfaction by the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the District and the Escrow Agent.

(k) At the time of the Closing, there shall not have occurred any change or any development involving a prospective change, in the condition, financial or otherwise, of the District from that set forth in the Official Statement that in the reasonable judgment of the Authorized Representative, is material and adverse and that makes it, in the reasonable judgment of the Authorized Representative, impracticable to market the Bonds on the terms and in the manner contemplated in the Official Statement.

All such opinions, certificates, letters, agreements, and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to the Underwriters and their counsel and to Bond Counsel. The Authorized Representative shall be entitled to receive such conformed copies or photocopies of such opinions, certificates, letters, agreements, and documents as the Underwriters may reasonably request.

9. Conditions to Obligations of the District. The obligations of the District hereunder to deliver the Bonds shall be subject to receipt on or before the date of the Closing of the purchase price set forth in Section 1 hereof, the opinion of Bond Counsel described in Section 8(h)(1) hereof, and the opinion of the Attorney General described in Section 8(h)(8) hereof.

10. Termination. The Underwriters shall have the right to cancel their obligation to purchase the Bonds if, between the date hereof and the Closing, the market price or marketability of the Bonds shall be materially adversely affected, in the reasonable judgment of the Authorized Representative, by the occurrence of any of the following:

(a) legislation shall be enacted or recommended to the Congress for passage by the President of the United States, or favorably reported for passage to either House of the Congress by any committee of such House to which such legislation has been referred for consideration, a decision by a Court of the United States or the United States Tax Court shall be rendered, or a ruling, regulation, or statement by or on behalf of the Treasury Department of the United States, the Internal Revenue Service, or other governmental agency shall be made or proposed, the effect of any or all of which would be to impose directly or indirectly federal income taxation upon interest received on obligations of the general character of the Bonds or upon income of the District; or

(b) there shall exist any event which, in the reasonable judgment of the Authorized Representative, either (1) makes untrue or incorrect in any material and adverse respect any statement or information contained in the Official Statement or (2) is not reflected in the Official Statement but should be reflected therein in order to make the statements and information contained therein not misleading in any material respect; or

(c) there shall have occurred any national or international calamity or crisis, including, without limitation, financial crisis, or a financial crisis or a default with respect to the debt obligations of, or the institution of proceedings under the federal or the state bankruptcy laws by or against the State of Texas or any political subdivision, agency, or instrumentality of the State, that affect the financial markets of the United States; or

(d) there shall have occurred any (1) new material outbreak of hostilities (including, without limitation, an act of terrorism) or (2) new material other national or international calamity or crisis, or any material adverse change in the financial, political or economic conditions affecting the United States, including, but not limited to, an escalation of hostilities that existed prior to the date hereof and any such event shall affect or have affected the financial markets of the United States; or

(e) there shall be in force a general suspension of trading on the New York Stock Exchange; or

(f) a general banking moratorium shall have been declared by either federal, Texas, or New York authorities; or

(g) there shall have occurred any materially adverse change in the affairs or financial condition of the District, except for changes which the Official Statement discloses have occurred or may occur; or

(h) legislation shall be enacted or any action shall be taken by the United States Securities and Exchange Commission which, in the written opinion of counsel to the Underwriters delivered to the Underwriters and the District, has the effect of requiring the contemplated distribution of the Bonds to be registered under the Securities Act of 1933, as amended, or requiring the Bonds or the Order or any other document relating to the Bonds or transactions described herein to be qualified under the Trust Indenture Act of 1939, as amended; or

(i) a stop order, ruling, regulation, or official statement by or on behalf of the United States Securities and Exchange Commission shall be issued or made to the effect that the issuance of the Bonds, or of obligations of the general character of the Bonds, is in violation of any provision of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended; or

(j) any state blue sky or securities commission or other governmental agency or body in a state in which at least 20% of the Bonds shall have been sold shall have withheld registration, exemption, or clearance of the offering of the Bonds as described herein, or issued a stop order or similar ruling relating thereto; or

(k) the Constitution of the State of Texas shall be amended, or an amendment shall be proposed, or legislation shall be enacted, or a decision shall have been rendered as to matters of Texas law, or any order, ruling, or regulation shall have been rendered as to or on behalf of the State of Texas by an official, agency, or department thereof, affecting the tax status of the District, its property, or income; its bonds (including the Bonds), or the interest thereon; or

(l) there shall be established any new restriction on transactions in securities materially affecting the free market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a change to the net capital requirements of, underwriters established by the New York Stock Exchange, the United States Securities and Exchange Commission, any other federal or state agency or the Congress of the United States, or by Executive Order; or

(m) there shall have occurred any downgrading or published negative credit watch or similar published information from a rating agency that at the date of this Purchase Contract has published a rating (or has been asked to furnish a rating) on any of the District's debt obligations that are secured in a like manner as the Bonds, including the Bonds, which action reflects a change or possible change, in the unenhanced ratings accorded any such obligations of the District (including any unenhanced rating to be accorded the Bonds); or

(n) a material disruption in securities settlement, payment, or clearance services in the United States shall have occurred.

If the District shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of, and to pay for the Bonds contained in this Purchase Contract, or if the obligations of the Underwriters to purchase, to accept delivery of, and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and be of no further force or effect, and neither the Underwriters nor the District shall be under further obligation hereunder, except that the respective obligations of the District and the Underwriters set forth in Sections 12, 13, 14, and 17 hereof shall continue in full force and effect. In addition, the District shall promptly return the corporate check of the Authorized Representative delivered to the District pursuant to Section 4 hereof.

11. Particular Covenants of the District. The District covenants and agrees with the Underwriters as follows:

(a) Up to and including the date the Underwriters are no longer required to provide an Official Statement to potential customers who request the Official Statement pursuant to Rule 15c2-12, the District shall cooperate with the Underwriters in amending or supplementing the Official Statement whenever requested by the Authorized Representative if, in the reasonable judgment of the Authorized Representative, such amendment or supplement is required.

(b) The District shall not revise, amend, or supplement the Official Statement unless such revision, amendment, or supplement has been previously approved by the Authorized Representative, which approval shall not be unreasonably withheld.

(c) The District shall cooperate with the Underwriters and their counsel in any endeavor to qualify the Bonds for offering and sale under the securities or blue sky laws of such jurisdictions of the United States as the Underwriters may request, and the District shall use all reasonable efforts to assist the Underwriters to effect such qualifications and to maintain them in effect until the distribution of the Bonds described in the Official Statement shall have been completed; provided, however, the District shall not be required with respect to the offer or sale of the Bonds to file a general or special written consent to suit or to file a general or special written consent to service of process in any jurisdiction, will not be required to qualify as a foreign corporation, and will not bear any expense in connection with any such qualification. The District consents to the use of the Order, the Preliminary Official Statement, and the Official Statement by the Underwriters in obtaining such qualifications.

(d) Any certificate or other instrument or document signed by an authorized officer or agent of the District and delivered to the Underwriters pursuant to the terms and provisions hereof shall be deemed to be a representation and warranty made by the District to the Underwriters as to the statements made therein.

(e) From and after the date of this Purchase Contract through and including the time of the Closing, the District will not, except as disclosed in the Official Statement and otherwise without the prior written consent of the Authorized Representative, issue any additional bonds, notes, or other obligations for borrowed money, other than in the normal course of business, and the District will not incur any material liabilities, direct or contingent, relating to the District.

12. Survival of Representations. All representations, warranties, and agreements of the District hereunder or in any certificate delivered pursuant hereto shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Underwriters, and shall survive the delivery of and payment for the Bonds and any termination of this Purchase Contract by the Underwriters pursuant to the terms hereof.

13. Payment of Expenses. Costs related to the issuance and sale of the Bonds, including, but not limited to, costs of preparation, printing, and mailing of the Bonds, the Preliminary Official Statement, and the Official Statement, postage, the fees and expenses of any persons retained by the District relating to this transaction, the cost of obtaining credit ratings on the Bonds, the fees of the Attorney General, the fees and expenses of Southwest Securities, Inc., as financial advisor to the District, the fees and costs of the Paying Agent/Registrar, the paying agent/registrar for the Refunded Bonds, the Escrow Agent, and any other persons retained by the District relating to this transaction, and the fees and disbursements of Bond Counsel to the District shall be paid by the District out of the proceeds of the Bonds or other funds of the District. The Underwriters shall pay for their costs related to the purchase of the Bonds, including, without limitation, appropriate advertising expenses, "blue sky" fees and expenses, the fees and expenses of their legal counsel, and other expenses incurred at the Underwriters' discretion (including, but not limited to, travel, lodging, meals, entertainment, deal mementos, and similar expenses). The District acknowledges that the Authorized Representative will pay from the Underwriters' expense allocation of the underwriting discount the applicable per bond assessment charged by the Municipal Advisory Council of Texas, a non-profit corporation whose purpose is to collect, maintain and distribute information relating to issuing entities of municipal securities. The District acknowledges that it has had an opportunity, in consultation with such advisors as it may deem appropriate, if any, to evaluate and consider the fees and expenses being incurred as part of the issuance of the Bonds.

14. No Personal Liability. None of the members of the District, nor any officer, agent, or employee of the District, shall be charged personally by the Underwriters with any liability, or be held liable to the Underwriters under any term or provision of this Purchase Contract, or because of execution or attempted execution, or because of any breach or attempted or alleged breach, of this Purchase Contract.

15. Continuing Disclosure Agreement. The District has agreed in the Order to provide certain periodic information and notices of material events in accordance with Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Underwriters have reviewed the agreement as set forth in the Order and the Underwriters' obligation to accept and pay for the Bonds is conditioned upon delivery to the Underwriters or their agent of a certified copy of the Order containing the agreement described under such heading.

16. Notices. Any notice or other communication to be given to the District under this Purchase Contract may be given by delivering the same in writing at its address set forth above, Attention: President, Board of Directors, and any notice or other communication to be given to the Underwriters under this Purchase Contract may be given by delivering the same in writing to Mr. Chris Whitlock, SAMCO Capital Markets, Inc., 1700 Pacific Avenue, Suite 2000, Dallas, Texas 75201.

17. Parties in Interest; Entire Agreement. This Purchase Contract shall constitute the entire agreement and is made solely for the benefit of the District and the Underwriters (including the successors or assigns of the Underwriters), and no other person shall acquire or have any right hereunder or by virtue hereof. The Underwriters shall have the right to assign their rights, duties, and obligations under this Purchase Contract. This Purchase Contract may not be assigned by the District. All of the District's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of the Underwriters; (ii) delivery of and payment for the Bonds pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

18. Governing Law and Choice of Law. This Purchase Contract shall be governed by and construed in accordance with the laws of the State of Texas and the United States of America.

19. Business Day. For purposes of this Purchase Contract, business day means any day on which the New York Stock Exchange is open for trading.

20. Status of the Underwriters. It is understood and agreed that for all purposes of this Purchase Contract and the transactions contemplated hereby the Underwriters have, in their role as underwriters, acted solely as independent contractors and have not acted as a financial or investment advisor, fiduciary, or agent to or for the District, whether directly or indirectly through any person. The District recognizes that the Underwriters expect to profit from the acquisition and potential distribution of the Bonds. The District acknowledges and agrees that (i) the primary role of the Underwriters is to purchase securities for resale to investors and the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's length commercial transaction between the District and the Underwriters, (ii) in connection with such transaction, the Underwriters are acting solely as principals and not as agents or fiduciaries of the District, (iii) the Underwriters have not assumed (individually or collectively) a fiduciary responsibility in favor of the District with respect to the offering of the Bonds or the process leading thereto (whether or not any Underwriter, or any affiliate of an Underwriter, has advised or is currently advising the District on other matters) or any other obligation to the District except the obligations expressly set forth in this Purchase Contract, (iv) the Underwriters have financial and other interests that differ from those of the District, (v) the Underwriters have provided to the District prior disclosures under Rule G-17 of the MSRB, which have been received by the District and (vi) the District has consulted with its own legal and financial advisors to the extent it deemed appropriate in connection with the offering of the Bonds.

21. Severability. If any provision of this Purchase Contract shall be held or deemed to be or shall, in fact, be invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provision or provisions of any constitution, statute, rule of public policy, or any other reason, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions of this Purchase Contract invalid, inoperative or unenforceable to any extent whatever.

22. General. This Purchase Contract may be executed in several counterparts, each of which shall be regarded as an original and all of which will constitute one and the same instrument. The section headings of this Purchase Contract are for convenience of reference only and shall not affect its interpretation. This Purchase Contract shall become effective upon your acceptance hereof and delivery of a signed copy of this Purchase Contract to the Authorized Representative.

* * * *

Very truly yours,

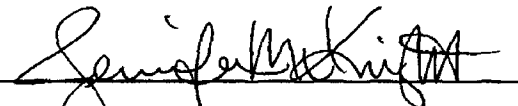
SAMCO CAPITAL MARKETS, INC.

By: 

Title: Managing Director

Accepted and agreed to as of 11:32 a.m./~~p.m.~~ Central time,
on the 14th day of August, 2013.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

By: 

Name: Jennifer McKnight

Title: District Manager

SCHEDULE I
PRICING CERTIFICATE PREPARED BY BOND COUNSEL

PRICING CERTIFICATE

I, the undersigned District Manager of Trophy Club Municipal Utility District No. 1 (the "District"), acting as the Pricing Officer pursuant to the authority granted to me by the order adopted by the Board of Directors of the District (the "Board"), on June 18, 2013 (the "Bond Order") relating to the issuance of the Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds"), hereby find, determine and commit on behalf of the District to sell and deliver the Bonds on the following terms. Capitalized terms not otherwise defined herein have the meaning assigned in the Bond Order.

1. The Bonds shall be designated as "Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013."

2. The Bonds are hereby sold and shall be delivered to SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to the terms of the Purchase Contract, dated August 14, 2013 between the District and the Underwriter and attached hereto as Exhibit A, for cash at a price of \$1,968,056.50 (being the par amount of the Bonds plus an original issue premium of \$78,832.75, less an underwriting discount of \$15,776.25), plus accrued interest from the date of the Bonds to the date of delivery, according to the following terms:

A. The aggregate original principal amount of the Bonds shall be \$1,905,000.

B. The Bonds shall be Current Interest Bonds and shall be dated July 1, 2013 and shall be numbered from R-1 upwards (except that the Initial Bond shall be numbered T-1). The Bonds shall mature and bear interest from their dated date as follows:

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>Interest</u> <u>Rate (%)</u>
09/01/2014	165,000	2.000%
09/01/2015	175,000	2.000%
09/01/2016	175,000	3.000%
09/01/2017	185,000	3.000%
09/01/2018	185,000	3.000%
09/01/2019	195,000	3.000%
09/01/2020	195,000	3.000%
09/01/2021	205,000	3.000%
09/01/2022	210,000	3.000%
09/01/2023	215,000	3.500%

C. Interest on the Bonds shall be payable on March 1 and September 1 of each year, commencing March 1, 2014. The record date for the Bonds will be the fifteenth day of the month preceding an Interest Payment Date whether or not such dates are Business Days.

D. The Bonds are not subject to redemption prior to their stated maturity at the option of the District.

E. The initial Bonds shall be registered in the name of SAMCO Capital Markets, Inc.

3. The Refundable Bonds that are to be refunded in connection with the issuance of the Bonds, and the redemption date of the Refunded Bonds, are designated and set forth in Exhibit B attached hereto and the form of the Notice of Redemption relating thereto is set forth in Exhibit B attached hereto. The Bonds are in amounts sufficient to redeem and refund the Refunded Bonds and to pay the costs of issuing the Bonds.

4. The issuance of the Bonds is in the best interest of the District and produces a gross debt service savings of \$129,679.17. The District is not making a contribution to the refunding.

5. The price to be paid by the Underwriter for the Bonds is 104.138%, which is in excess of 90% of the aggregate original principal amount thereof plus accrued interest to the date of delivery of the Bonds, and produces a gross debt service savings of \$129,679.17, which is in excess of \$125,000. None of the Bonds bear interest at an interest rate greater than the maximum authorized by law. Additionally, all of the requirements of Sections 3.01 and 3.02 of the Bond Order have been met.

6. In accordance with Section 19.01 of the Bond Order, the District shall provide annually to the MSRB, within six months after the end of each fiscal year, financial information and operating data with respect to the District as provided in the Official Statement under the caption "CONTINUING DISCLOSURE OF INFORMATION — Annual Reports."


7. In accordance with Section 15.03 of the Bond Order, the Preliminary Official Statement, dated July 1, 2013, previously prepared and distributed in connection with the pricing of the Bonds is hereby approved and deemed final as of its date (subject to permissible omissions described in Rule 15c2-12) within the meaning of the provisions of 17 C.F.R. § 250.15c2-12(b)(1), and the preparation and distribution of the final Official Statement in reoffering of the Bonds by the Underwriter is hereby approved.

8. In consultation with, and reliance upon the advice of the financial advisor for the District, I hereby find that the terms and sale are the most advantageous reasonably available on the date and time of the pricing of the Bonds given the then existing market conditions and the stated terms of sale on such dated and time.

9. The Bonds shall be in the form as set forth in Exhibit C attached hereto.

WITNESS MY HAND this 14th day of August, 2013.

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

By: 
Name: Jennifer McKnight
Title: District Manager

Pricing Certificate
Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013

TCMUD006904

EXHIBIT A

Purchase Contract

[See Tab __]

EXHIBIT B

NOTICE OF REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 2 UNLIMITED TAX BONDS, SERIES 2003, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$725,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2015	120,000	3.90	September 18, 2013	897060CC1
2017	135,000	4.00	September 18, 2013	897060CE7
2020	220,000	4.25	September 18, 2013	897060CH0
2023	250,000	4.00	September 18, 2013	897060CL1

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

- * The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond

Dated: _____, 20__

NOTICE OF REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 2 UNLIMITED TAX REFUNDING BONDS, SERIES 2005, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$1,185,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2014	100,000	4.00	September 18, 2013	897060CV9
2015	105,000	4.00	September 18, 2013	897060CW7
2016	105,000	4.00	September 18, 2013	897060CX5
2017	110,000	4.00	September 18, 2013	897060CY3
2018	115,000	4.00	September 18, 2013	897060CZ0
2020	245,000	4.00	September 18, 2013	897060DA4
2023	405,000	4.20	September 18, 2013	897060DB2

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

* The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond.

Dated: _____, 20__

EXHIBIT C

FORM OF BOND

**UNITED STATES OF AMERICA
STATE OF TEXAS**

**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1
UNLIMITED TAX REFUNDING BOND
SERIES 2013**

NO. R-

**PRINCIPAL
AMOUNT
\$ _____**

INTEREST RATE DATE OF BONDS MATURITY DATE CUSIP NO.

July 1, 2013

REGISTERED OWNER:

PRINCIPAL AMOUNT:

ON THE MATURITY DATE SPECIFIED ABOVE, TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1 (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assign (hereinafter called the "Registered Owner") the principal amount set forth above, and to pay interest thereon calculated on the basis of a 360 day year of twelve 30 day months, from July 1, 2013 on March 1, 2014 and semiannually on each September 1 and March 1 thereafter (an "Interest Payment Date") to the maturity date specified above, at the interest rate per annum specified above; except that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the Interest Payment Date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following Interest Payment Date, in which case such principal amount shall bear interest from such next following Interest Payment Date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged or converted from is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full. Notwithstanding the foregoing, during any period in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, any payment to the securities depository, or its nominee or registered assigns, shall be made in accordance with existing arrangements between the District and the securities depository.

THE PRINCIPAL OF AND INTEREST ON this Bond are payable in lawful money of the United States of America, without exchange or collection charges. The principal of this Bond

shall be paid to the Registered Owner hereof upon presentation and surrender of this Bond at maturity at The Bank of New York Mellon Trust Company, N.A., which is the "Registrar" or "Paying Agent/Registrar" for this Bond, at its designated office for payment in Dallas, Texas. The payment of interest on this Bond shall be made by the Paying Agent/Registrar to the Registered Owner hereof on each Interest Payment Date by check or draft, dated as of such Interest Payment Date, drawn by the Registrar on, and payable solely from, funds of the District required by the order authorizing the issuance of the Bonds (the "Bond Order") to be on deposit with the Registrar for such purpose as hereinafter provided; and such check or draft shall be sent by the Registrar by United States mail, first-class postage prepaid, on or before each such Interest Payment Date, to the Registered Owner hereof, at its address as it appeared on the fifteenth (15th) calendar day of the month next preceding each such date whether or not a business day (the "Record Date") on the Register kept by the Registrar listing the names and addresses of the Registered Owners (the "Register"). In addition, interest may be paid by such other method, acceptable to the Registrar, requested by, and at the risk and expense of, the Registered Owner. In the event of a non payment of interest on a scheduled payment date, and for 30 calendar days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 calendar days after the Special Record Date) shall be sent at least 5 business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Registered Owner as it appears on the Register at the close of business on the last business day next preceding the date of mailing of such notice.

DURING ANY PERIOD in which ownership of the Bonds is determined only by a book entry at a securities depository for the Bonds, if fewer than all of the Bonds of the same maturity and bearing the same interest rate are to be redeemed, the particular Bonds of such maturity and bearing such interest rate shall be selected in accordance with the arrangements between the District and the securities depository.

ANY ACCRUED INTEREST due at maturity of this Bond as provided herein shall be paid to the Registered Owner upon presentation and surrender of this Bond for payment at the designated office for payment of the Paying Agent/Registrar. The District covenants with the Registered Owner of this Bond that on or before each principal payment date and interest payment date for this Bond it will make available to the Registrar, from the "Debt Service Fund" the creation of which is affirmed by the Bond Order, the amounts required to provide for the payment, in immediately available funds, of all principal of and interest on the Bonds, when due.

IF THE DATE for any payment due on this Bond shall be a Saturday, Sunday, or a day on which the Paying Agent/Registrar is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, or day on which the Paying Agent/Registrar is authorized by law or executive order to remain closed; and payment on such date shall have the same force and effect as if made on the original date payment was due.

THIS BOND is one of a series of Bonds dated as of July 1, 2013 and authorized to be issued pursuant to the Bond Order adopted by the Board of Directors of the District in the principal amount of \$1,905,000 FOR PURPOSES OF REFUNDING THE REFUNDED BONDS AND PAYING CERTAIN COSTS OF ISSUING THE BONDS. Terms used herein and not otherwise defined shall have the meanings given in the Bond Order.

THE BONDS are not subject to redemption prior to their stated maturity at the option of the District.

ALL BONDS OF THIS SERIES are issuable solely as fully registered Bonds, without interest coupons, in the principal denomination in the case of the Bonds, of any integral multiple of \$5,000. As provided in the Bond Order, this Bond may, at the request of the Registered Owner or the assignee or assignees hereof, be assigned, transferred, converted into and exchanged for a like aggregate amount of fully registered Bonds, without interest coupons, payable to the appropriate Registered Owner, assignee or assignees, as the case may be, having any authorized denomination or denominations as requested in writing by the appropriate Registered Owner, assignee or assignees, as the case may be, upon surrender of this Bond to the Registrar for cancellation, all in accordance with the form and procedures set forth in the Bond Order. Among other requirements for such assignment and transfer, this Bond must be presented and surrendered to the Registrar, together with proper instruments of assignment, in form and with guarantee of signatures satisfactory to the Registrar, evidencing assignment of this Bond or any portion or portions hereof in any authorized denomination to the assignee or assignees in whose name or names this Bond or any such portion or portions hereof is or are to be registered. The Form of Assignment printed or endorsed on this Bond may be executed by the Registered Owner to evidence the assignment hereof, but such method is not exclusive, and other instruments of assignment satisfactory to the Registrar may be used to evidence the assignment of this Bond or any portion or portions hereof from time to time by the Registered Owner. The Registrar's reasonable standard or customary fees and charges for assigning, transferring, converting and exchanging any Bond or portion thereof will be paid by the District. In any circumstance, any taxes or governmental charges required to be paid with respect thereto shall be paid by the one requesting such assignment, transfer, conversion or exchange, as a condition precedent to the exercise of such privilege. The Registrar shall not be required to make any such transfer, conversion or exchange of any Bond or any portion thereof during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or Interest Payment Date.

WHENEVER the beneficial ownership of this Bond is determined by a book entry at a securities depository for the Bonds, the foregoing requirements of holding, delivering or transferring this Bond shall be modified to require the appropriate person or entity to meet the requirements of the securities depository as to registering or transferring the book entry to produce the same effect.

IN THE EVENT any Registrar for the Bonds is changed by the District, resigns, or otherwise ceases to act as such, the District has covenanted in the Bond Order that it promptly will appoint a competent and legally qualified substitute therefor, and cause written notice thereof to be mailed to the Registered Owners of the Bonds.

THE BONDS are payable from the proceeds of an ad valorem tax, without legal limit as to rate or amount, levied upon all taxable property within the District. The Bond Order provides that the District reserves the right to consolidate with one or more conservation and reclamation districts, to consolidate its waterworks and sewer systems with the systems of such districts, and to secure the Bonds and any other bonds of the District or such districts by a pledge of taxes of the consolidated system. The Bond Order further provides that the pledge of taxes, to the payment of the Bonds shall terminate at such time, if ever, as (i) money and/or defeasance obligations in an amount sufficient to defease the Bonds is deposited with or made available to the Registrar in accordance with the Bond Order or (ii) a city dissolves the District; and assumes the obligations of the District pursuant to existing Texas law.

THE BONDS are issued pursuant to the Bond Order, whereunder the District covenants to levy a continuing direct annual ad valorem tax, without legal limit as to rate or amount, on taxable property within the District, for each year while any part of the Bonds are considered outstanding under the provisions of the Bond Order, in sufficient amount, together with revenues and receipts available from other sources which are equally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of the principal of the Bonds when due, and to pay the expenses of assessing and collecting such tax, all as more specifically provided in the Bond Order. Reference is hereby made to the Bond Order for provisions with respect to the operation and maintenance of the District's facilities, the custody and application of funds, remedies in the event of a default hereunder or thereunder, and the other rights of the Registered Owners of the Bonds. By acceptance of this Bond the Registered Owner hereof consents to all of the provisions of the Bond Order, a certified copy of which is on file in the office of the District.

THE OBLIGATION to pay the principal of and the interest on this Bond is solely and exclusively the obligation of the District until such time, if ever, as the District is abolished and this Bond is assumed as described above. No other entity, including the State of Texas, any political subdivision thereof other than the District, or any other public or private body, is obligated, directly, indirectly, contingently, or in any other manner, to pay the principal of or the interest on this Bond from any source whatsoever. No part of the physical properties of the District, including the properties provided by the proceeds of the Bonds, is encumbered by any lien for the benefit of the Registered Owner of this Bond.

THE DISTRICT RESERVES THE RIGHT to issue additional bonds heretofore or hereafter duly authorized at elections held in the District payable from a lien on and pledge of taxes; bonds, notes and other obligations of inferior liens, and revenue bonds, notes and other obligations payable solely from revenues of the District or revenues to be received under contracts with other persons, including private corporations, municipalities and political subdivisions or from any other source. The District further reserves the right to issue refunding bonds in any manner permitted by law to refund any bonds (including the Bonds) at or prior to their respective dates of maturity.

TO THE EXTENT permitted by and in the manner provided in the Bond Order, the terms and provisions of the Bond Order and the rights of the Registered Owners of the Bonds may be

modified with, in certain circumstances, the consent of the Registered Owners of a majority in aggregate principal amount of the Bonds affected thereby; provided, however, that, without the consent of the Registered Owners of all of the Bonds affected, no such modification shall (i) extend 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, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of the Bonds required for consent to any such modification.

THIS BOND shall not be valid or obligatory for any purpose or be entitled to any benefit under the Bond Order unless this Bond either (a) is registered by the Comptroller of Public Accounts of the State of Texas as evidenced by execution of the registration certificate endorsed hereon or (b) is authenticated as evidenced by execution of the authentication certificate endorsed hereon by the Registrar.

IT IS HEREBY CERTIFIED, COVENANTED, AND REPRESENTED that all acts, conditions, and things necessary to be done precedent to the issuance of the Bonds in order to render the same legal, valid, and binding obligations of the District have happened and have been accomplished and performed in regular and due time, form, and manner, as required by law; that provision has been made for the payment of the principal of and interest on the Bonds by the levy of a continuing, direct annual ad valorem tax upon all taxable property within the District and that issuance of the Bonds does not exceed any constitutional or statutory limitation. In the event that any provisions herein contained do or would, presently or prospectively, operate to make any part hereof void or voidable, such provisions shall be without effect or prejudice to the remaining provisions hereof, which shall nevertheless remain operative, and such violative provisions, if any, shall be reformed by a court of competent jurisdiction within the limits of the laws of the State of Texas.

IT IS FURTHER CERTIFIED that the District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

IN WITNESS WHEREOF, the District has caused this Bond to be signed with the manual or facsimile signature of the President or Vice-President of the Board of Directors of the District and countersigned with the manual or facsimile signature of the Secretary or Assistant Secretary of the Board of Directors of the District, and has caused the official seal of the District to be duly impressed, or placed in facsimile, on this Bond.

TROPHY CLUB MUNICIPAL
UTILITY DISTRICT NO. 1

Secretary [Assistant Secretary],
Board of Directors

President [Vice-President],
Board of Directors

(DISTRICT SEAL)

INSERTIONS FOR INITIAL BONDS

The Initial Bond shall be in the form set forth above, except that:

A. immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As shown below" and "CUSIP NO." shall be deleted.

B. the first paragraph of the Bond shall be deleted and the following will be inserted:

"**TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1**, in Denton and Tarrant Counties, Texas (the "District"), being a political subdivision of the State of Texas, hereby promises to pay to the Registered Owner set forth above, or registered assigns (hereinafter called the "Registered Owner") the Payment at Maturity on September 1 in the years and in the principal installments and bearing interest at the per annum rate set forth in the following schedule:

Maturity Date (September 1)	Principal Amount (\$)	Interest Rate (%)
--------------------------------	--------------------------	----------------------

(Information from Pricing Certificate to be inserted)

The District promises to pay interest on the unpaid principal amount hereof (calculated on the basis of a 360-day year of twelve 30-day months) from July 1, 2013 at the respective Interest Rate per annum specified above. Interest is payable on March 1, 2014 and semiannually on each September 1 and March 1 thereafter to the date of payment of the principal installment specified

above; except, that if this Bond is required to be authenticated and the date of its authentication is later than the first Record Date (hereinafter defined), such principal amount shall bear interest from the interest payment date next preceding the date of authentication, unless such date of authentication is after any Record Date but on or before the next following interest payment date, in which case such principal amount shall bear interest from such next following interest payment date; provided, however, that if on the date of authentication hereof the interest on the Bond or Bonds, if any, for which this Bond is being exchanged is due but has not been paid, then this Bond shall bear interest from the date to which such interest has been paid in full."

C. The Initial Bond shall be numbered "T-1".

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

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

Witness my signature and seal this _____.

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

PAYING AGENT/REGISTRAR'S AUTHENTICATION CERTIFICATE

*(To be executed if this Bond is not accompanied by an
executed Registration Certificate of the Comptroller
of Public Accounts of the State of Texas)*

It is hereby certified that this Bond has been issued under the provisions of the Bond Order described in the text of this Bond; and that this Bond has been issued in conversion or replacement of, or in exchange for, a Bond, Bonds, or a portion of a Bond or Bonds of a series which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Dated: _____

Registrar

By _____
Authorized Representative

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto

Please insert Social Security or Taxpayer
Identification Number of Transferee

(Please print or typewrite name and address,
including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____, attorney, to register the transfer of the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed:

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

NOTICE: The signature above must correspond with the name of the Registered Owner as it appears upon the front of this Bond in every particular, without alteration or enlargement or any change whatsoever.

EXHIBIT A
Form of Supplemental Opinion of Bond Counsel

57168918.5

A-1

TCMUD006917

1769

_____, 2013

Trophy Club Municipal Utility District No. 1
100 Municipal Drive
Trophy Club, Texas 76262

SAMCO Capital Markets, Inc.
1700 Pacific Avenue, Suite 2000
Dallas, Texas 75201

Re: Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series
2013

Ladies and Gentlemen:

This opinion is provided to you pursuant to the requirements of Section 6(i)(4) of the Purchase Contract, dated _____, 2013 (the "Purchase Contract"), between SAMCO Capital Markets, Inc. (the "Underwriter") and Trophy Club Municipal Utility District No. 1 (the "Issuer") relating to the purchase of the Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013, dated _____ 1, 2013, in the principal amount of \$1,900,000 (the "Bonds").

All references in this opinion to instruments and other defined terms shall mean the instruments and other terms as defined in the Purchase Contract. The opinions expressed below are qualified to the extent that the enforceability of any provisions in any of the agreements or documents listed may be subject to and affected by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the rights of creditors generally, or by general principles of equity which permit the exercise of judicial discretion.

Based upon and subject to the above and foregoing, and our examination of such other information and documents, including provisions of the Constitution and applicable State and federal laws as we believe necessary to enable us to render this opinion, we are of the opinion that:

(a) The Order was duly adopted by the governing body of the Issuer and the Pricing Certificate has been duly executed by the Issuer, and the Order and the Pricing Certificate are in full force and effect as of the date of this opinion.

(b) The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended (the "1933 Act"), and the Trust Indenture Act of 1939, as

amended (the "Trust Indenture Act"), and it is not necessary, in connection with the offer and sale of the Bonds, to register the Bonds under the 1933 Act or to qualify the Order under the Trust Indenture Act.

Insofar as the Official Statement is concerned, our review and examination was limited to the information contained under the captions "PLAN OF FINANCING," "THE BONDS" (except under the subcaptions "Payment Record" and "Remedies in the Event of Default" and the second, third and fourth sentences under the subcaption "Issuance of Additional Debt"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Agreements"), and the subcaptions "OTHER PERTINENT INFORMATION"-Registration and Qualification of Bonds for Sale", "OTHER PERTINENT INFORMATION- Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION-Legal Matters" (except for the last two sentences of the second paragraph thereof), and we are of the opinion that such descriptions present a fair and accurate summary of the provisions of the laws and instruments therein described and, with respect to the Bonds, such information conforms to the Bond Order. Save and except for the review of the foregoing captions, we have not undertaken to determine independently the accuracy, completeness, or fairness of any other information, data or descriptions contained in the Official Statement, including particularly, but not limited to, the financial and statistical data included therein.

In addition, please be advised that the Underwriters are entitled to rely upon the opinion of Bond Counsel delivered in accordance with Section 8(h)(1) of the Purchase Contract.

Respectfully,

EXHIBIT B

[Letterhead of Fulbright & Jaworski LLP]

September 17, 2013

SAMCO Capital Markets, Inc.,
as the authorized representative
of a group of underwriters
1700 Pacific Avenue, Suite 2000
Dallas, Texas 75201

Ladies and Gentlemen:

We have acted as your counsel in connection with the purchase by you on this date of “Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013” issued in the aggregate original principal amount of \$1,905,000.00 (the *Bonds*) pursuant to a Purchase Contract dated August 14, 2013 (the *Purchase Contract*) between you and the Trophy Club Municipal Utility District No. 1 (the *District*). This opinion is being furnished to you pursuant to Section 8(h)(3) of the Purchase Contract. Unless otherwise expressly provided herein, capitalized terms used in this opinion shall have the meanings ascribed to them in the Purchase Contract.

We have examined a printed copy of the Preliminary Official Statement and the Official Statement and executed copies of the Order, the Pricing Certificate, the Paying Agent/Registrar Agreement, and the Escrow Agreement, and we have examined and rely upon the certificates and opinions referred to in Section 8(h) of the Purchase Contract.

In our examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified or photostatic copies, the authenticity of the originals of such latter documents, and the accuracy of the statements contained in such certificates.

Based upon the foregoing, and subject to the qualifications and exceptions hereinafter set forth, we are of the opinion that under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds are exempted securities within the meaning of the Securities Act of 1933, as amended, and it is not necessary in connection with the offer and sale of the Bonds to the public to register the Bonds under the Securities Act of 1933, as amended, or to qualify the Bonds, the Order, or any other instrument or document under the Trust Indenture Act of 1939, as amended. We express no opinion as to any requirements as to the registration of any other security or qualification of any other instrument under such Acts.

2. We have not verified the information contained in the Official Statement. However, as your counsel we have participated in discussions with respect to the Official Statement with representatives of the District, McCall Parkhurst & Horton L.L.P., bond counsel to the District, Southwest Securities, Inc., as financial advisor to the District, and you, and, as stated above, we have reviewed the Official Statement. In the course of such discussions and review, nothing has come to our attention which leads us to believe that the Official Statement [except with respect to the information appearing under the captions "THE BONDS – Book-Entry-Only System"; "TAX MATTERS"; "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Undertakings"; the financial statements and other financial and statistical data included therein and in the Appendices thereto, including but not limited to the financial statements appearing in Appendix A thereto, (as to which we have not been requested to express a view and as to which we express no view)] contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

In addition, based upon (i) our understanding of Rule 15c2-12 of the United States Securities and Exchange Commission (the *Rule*) and interpretive guidance published by the United States Securities and Exchange Commission relating thereto; (ii) our review of the continuing disclosure undertaking of the District contained in the Order; and (iii) the inclusion in the Official Statement of a description of the specifics of such undertaking, and in reliance on the opinion of Bond Counsel that the Order has been duly adopted by the District and constitutes a valid and legally binding obligation of the District enforceable in accordance with its terms, we have no reason to believe that such undertaking does not meet the requirements of paragraph (b)(5)(i) of the Rule and, accordingly, we advise you that such undertaking provides a suitable basis for you, as the Authorized Representative of the Underwriters and any other broker, dealer, or municipal securities dealer acting as a Participating Underwriters (as defined in the Rule) in connection with the offering of the Bonds, to make a reasonable determination that the District has met the qualifications of paragraph (b)(5)(i) of the Rule.

In addition to the limitations set forth in the preceding paragraphs, we have not been requested to review, nor have we reviewed, any records or contracts of the District or the basis for any representations made by representatives of the District, and the foregoing is subject to the material, statements, and other data contained in the records or contracts of the District and any such representations, to the extent they are reflected in the Official Statement, not containing any untrue statement of a material fact or omitting to state a material fact necessary to make the statements contained in the Official Statement, in light of the circumstances under which they were made, not misleading.

We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed herein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

This opinion is furnished solely for your benefit and may be relied upon only by the addressees hereof or anyone to whom specific permission is given in writing by us.

Very truly yours,

DEPOSIT AGREEMENT

The Bank of New York Mellon Trust Company, National Association (the "Bank"), being the paying agent for the following series of Bonds issued by the Trophy Club Municipal Utility District No. 2 (the "Issuer"): Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003 and Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds Series 2005 (collectively, the "Refunded Obligations"), hereby acknowledges, agrees and certifies for the benefit of the Issuer, the owners of the Refunded Obligations and the Attorney General of Texas pursuant to this Deposit Agreement dated September 17, 2013 as follows:

1. The Bank understands that the Refunded Obligations have been called for cancellation and redemption on September 18, 2013 (the "Redemption Date"), and the Issuer will deliver its Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds") on September 17, 2013 (the "Closing Date");

2. The Bank acknowledges that the total amount due on the Redemption Date for the Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003 is \$726,389.75 representing principal in the amount of \$725,000 plus accrued interest of \$1,389.75, and funds in payment of such principal and interest will be deposited with the Bank upon receipt of such funds from the Issuer on the Closing Date;

3. The Bank acknowledges that the total amount due on the Redemption Date for the Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2005 is \$1,187,276.58 representing principal in the amount of \$1,185,000.00 plus accrued interest of \$2,276.58, and funds in payment of such principal and interest will be deposited with the Bank upon receipt of such funds from the Issuer on the Closing Date;

4. The Bank acknowledges that its fees and expenses due the Bank with respect to the Refunded Obligations to and through their redemption and final payment have been provided for and represents that it will not demand the payment of or collect future fees or expenses, if any, from funds to be provided to it for the payment of the principal of and interest on the Refunded Obligations, but will look to payment of such fees and expenses from other funds provided by the Issuer;

5. The Bank, as paying agent/registrar for the Refunded Obligations, has caused a "notice of redemption" of the Refunded Obligations to be furnished to the registered owners of the Refunded Obligations at least 30 days prior to the Redemption Date, and such notice was provided on the date(s) and in the manner as set forth in the ordinances authorizing the Refunded Obligations. The Bank acknowledges receipt of the notice of redemption attached as Exhibit A hereto;

6. The Issuer certifies that it will cause to be deposited the amounts stated in paragraphs 2 and 3 with the Bank on the Closing Date;

7. The Bank shall deposit any moneys received from the Issuer for the payment of the Refunded Obligations into a trust account to be held in a fiduciary capacity, 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 trust accounts until the principal and interest on such securities have been presented for payment and paid to the owner thereof.

EXECUTED THIS 17th day of September, 2013.

THE BANK OF NEW YORK MELLON TRUST COMPANY,
NATIONAL ASSOCIATION

By Erin L. Fitzpatrick
Associate
Title _____

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

District Manager

Deposit Agreement
Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003
Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2005

TCMUD006924

1776

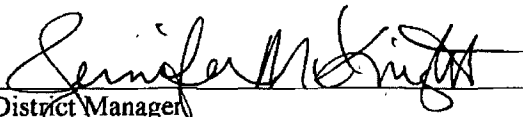
EXECUTED THIS 17th day of September, 2013.

THE BANK OF NEW YORK MELLON TRUST COMPANY,
NATIONAL ASSOCIATION

By _____

Title _____

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1


District Manager

Deposit Agreement
Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003
Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2005

TCMUD006925

1777

EXHIBIT A

NOTICE OF REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 2 UNLIMITED TAX BONDS, SERIES 2003, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$725,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2015	120,000	3.90	September 18, 2013	897060CC1
2017	135,000	4.00	September 18, 2013	897060CE7
2020	220,000	4.25	September 18, 2013	897060CH0
2023	250,000	4.00	September 18, 2013	897060CL1

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

* The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond.

Dated: _____, 20__

NOTICE OF REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 2 UNLIMITED TAX REFUNDING BONDS, SERIES 2005, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$1,185,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2014	100,000	4.00	September 18, 2013	897060CV9
2015	105,000	4.00	September 18, 2013	897060CW7
2016	105,000	4.00	September 18, 2013	897060CX5
2017	110,000	4.00	September 18, 2013	897060CY3
2018	115,000	4.00	September 18, 2013	897060CZ0
2020	245,000	4.00	September 18, 2013	897060DA4
2023	405,000	4.20	September 18, 2013	897060DB2

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

* The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond.

Dated: _____, 20__

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

August 14, 2013

The Bank of New York Mellon Trust Company, N.A.
2001 Bryan Street, 8th Floor
Dallas, Texas 75201

Re: Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003
(the "*Series 2003 Bonds*")

Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds,
Series 2005 (the "*Series 2005 Bonds*")

Ladies and Gentlemen:

Pursuant to the order adopted on June 18, 2013 by the Board of Directors of the Trophy Club Municipal Utility District No. 1 (the "*District*") authorizing the issuance of the Trophy Club Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2013 (the "*Order*"), the District has exercised the option to redeem all of the Series 2003 Bonds and the Series 2005 Bonds (collectively, the "*Refunded Bonds*") as shown below:

A. The District will redeem all outstanding Series 2003 Bonds maturing on September 1 in the years 2015, 2017, 2020 and 2023 in the aggregate principal amount of \$725,000 on September 18, 2013 at the redemption price equal to the principal amount of the Series 2003 Bonds plus accrued interest to the date of redemption as set forth in the attached Notice of Redemption.

B. The District will redeem all outstanding Series 2005 Bonds maturing on September 1 in the years 2014 through 2018, 2020 and 2023 in the aggregate principal amount of \$1,185,000 on September 18, 2013 at the redemption price equal to the principal amount of the Series 2005 Bonds plus accrued interest to the date of redemption as set forth in the attached Notice of Redemption.

Enclosed is a copy of the orders authorizing the Refunded Bonds (the "*Refunded Bond Orders*") and the Notice of Redemption with respect to each series of Refunded Bonds. As Paying Agent/Registrar for the Refunded Bonds, you are hereby requested to give the notices of redemption of the Refunded Bonds in the manner required by the Refunded Bond Orders:

The Paying Agent/Registrar will cause a written notice of such redemption to be sent at least 30 days prior to the date of redemption by United States mail, first-class postage prepaid, to the Registered Owner of each Refunded Bond to be redeemed.

TCMUD006928

1780

Please sign and date this letter in the lower left hand corner to acknowledge receipt and agreement to provide each Notice of Redemption in the manner required. Please retain one copy for your files and return the remaining four executed copies of this letter to our Bond Counsel, McCall, Parkhurst & Horton L.L.P. at the following address:

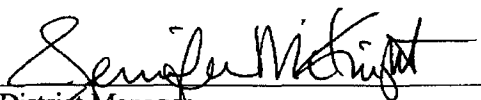
Mr. Gregory Schaecher.
McCall, Parkhurst & Horton L.L.P.
717 North Harwood, 9th Floor
Dallas, Texas 75201-6587.

Thank you for your attention to this matter.

Very truly yours,

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

By:


District Manager

Acknowledgment of Receipt and agreed to
on August 14, 2013

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

By: _____
Title: _____

TCMUD006929

1781

Please sign and date this letter in the lower left hand corner to acknowledge receipt and agreement to provide each Notice of Redemption in the manner required. Please retain one copy for your files and return the remaining four executed copies of this letter to our Bond Counsel, McCall, Parkhurst & Horton L.L.P. at the following address:

Mr. Gregory Schaecher
McCall, Parkhurst & Horton L.L.P.
717 North Harwood, 9th Floor
Dallas, Texas 75201-6587.

Thank you for your attention to this matter.

Very truly yours,

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

By: _____
District Manager

Acknowledgment of Receipt and agreed to
on August 14, 2013

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

By: *Erin L. Fitzpatrick*
Title: Associate

TCMUD006930

1782

NOTICE OF DEFEASANCE/REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY, DISTRICT NO. 2 UNLIMITED TAX BONDS, SERIES 2003, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$725,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2015	120,000	3.90	September 18, 2013	897060CC1
2017	135,000	4.00	September 18, 2013	897060CE7
2020	220,000	4.25	September 18, 2013	897060CH0
2023	250,000	4.00	September 18, 2013	897060CL1

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

* The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond.

Dated: _____, 2013

NOTICE OF REDEMPTION

Trophy Club Municipal Utility District No. 1

Notice is hereby given that the following obligations of Trophy Club Municipal Utility District No. 1 (the "District") have been defeased and called for redemption prior to their scheduled maturities, at a price of par and accrued interest to the date of redemption, to-wit:

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 2 UNLIMITED TAX REFUNDING BONDS, SERIES 2005, all outstanding obligations maturing on September 1 in each of the following years, aggregating \$1,185,000 in principal amount.

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate (%)</u>	<u>Redemption Date</u>	<u>CUSIP*</u>
2014	100,000	4.00	September 18, 2013	897060CV9
2015	105,000	4.00	September 18, 2013	897060CW7
2016	105,000	4.00	September 18, 2013	897060CX5
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2020	245,000	4.00	September 18, 2013	897060DA4
2023	405,000	4.20	September 18, 2013	897060DB2

Due provision for the payment of the above-described obligations has been made with The Bank of New York Mellon Trust Company, N.A., (the "Bank"), the paying agent for said obligations, and said obligations shall be presented for payment either in person or by mail, at the following address:

<u>First Class/ Registered/Certified Mail</u>	<u>By Overnight or Courier</u>	<u>In person</u>
The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust P.O. Box 396 East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust 111 Sanders Creek Parkway East Syracuse, New York 13057	The Bank of New York Mellon Trust Company, N.A. Global Corporate Trust Corporate Trust Window 101 Barclay Street 1ST Floor East New York, New York 10286

Interest on the redeemed obligations shall cease to accrue thereon after their redemption date.

In compliance with section 3406 of the Internal Revenue Code of 1986, as amended, payors making certain payments due on debt securities may be obligated to deduct and withhold a portion of such payment from the remittance to any payee who has failed to provide such payor with a valid taxpayer identification number. To avoid the imposition of this withholding tax, such payees should submit a certified taxpayer identification number when surrendering the Bonds for redemption.

* The CUSIP Numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. The District and Paying Agent shall not be responsible for the selection or the correctness of the CUSIP numbers set forth herein or as printed on any Bond.

Dated: _____, 20__

FEDERAL TAX CERTIFICATE

1. In General.

1.1. The undersigned is the District Manager of the Trophy Club Municipal Utility District No. 1 (the "Issuer").

1.2. This Certificate is executed for the purpose of establishing the reasonable expectations of the Issuer as to future events regarding the Issuer's Unlimited Tax Refunding Bonds, Series 2013 (the "Bonds"). The Bonds are being issued pursuant to an Order of the Issuer and a Pricing Certificate, each duly adopted by the Issuer (collectively, the "Order"). The Order is incorporated herein by reference.

1.3. To the best of the undersigned's knowledge, information and belief, the expectations contained in this Federal Tax Certificate are reasonable.

1.4. The undersigned is an officer of the Issuer delegated with the responsibility, among others, of issuing and delivering the Bonds.

1.5. The undersigned is not aware of any facts or circumstances that would cause him to question the accuracy of the representations made by SAMCO Capital Markets, Inc. (the "Underwriter") in the Issue Price Certificate attached hereto as Exhibit "D", and by Southwest Securities, Inc. (the "Financial Advisor") in Subsections 5.3 of this Certificate and with respect to the Schedules attached hereto as Exhibit "E".

2. The Purpose of the Bonds and Useful Lives of Projects.

2.1. The purpose for the issuance of the Bonds, as more fully described in the Order, is to currently refund the Issuer's Trophy Club Municipal Utility District No. 2 Unlimited Tax Bonds, Series 2003 and Trophy Club Municipal Utility District No. 2 Unlimited Tax Refunding Bonds, Series 2005 (the "Outstanding Bonds") and to pay the related expenses of issuing the Bonds. The Bonds will be expended within 90 days of the date hereof.

2.2. The proceeds of the Outstanding Bonds were used to provide the financing and refinancing of a water plant, wells and mixing lines; Fort Worth water supply transmission line; elevated storage; oversized water distribution and wastewater lines; wastewater treatment plant; water and wastewater facilities for Village West Phase I; and construction, acquisition, improvement and extension of a waterworks system and sanitary sewer system and drainage and storm sewer system (the "Outstanding Projects"). The Outstanding Projects remain in service and have not been sold or otherwise disposed of by the Issuer.

2.3. The Issuer expects that 120 percent of the aggregate useful lives of the Outstanding Projects, on the later of the date that such Outstanding Projects were placed in service or the date of issuance of the Outstanding Bonds, will exceed 18 years.

2.4. Other than members of the general public, the Issuer expects that throughout the lesser of the term of the Bonds, or the useful lives of the Outstanding Projects, the only user of the Outstanding Projects will be the Issuer or the Issuer's employees and agents. The Issuer will be the manager of the Outstanding Projects. In no event have the proceeds of the Outstanding Bonds or facilities financed therewith be used for private business use in an amount greater than \$15 million. The Issuer does not expect to enter into long-term sales of output from the Refinanced/ Outstanding Projects and sales of output will be made on the basis of generally-applicable and

uniformly applied rates. The Issuer may apply different rates for different classes of customers, including volume purchasers, which are reasonable and customary.

2.5. Except as stated below, the Issuer expects not to sell or otherwise dispose of property constituting the Outstanding Projects prior to the earlier of the end of such property's useful life or the final maturity of the Bonds. The Order provides that the Issuer will not sell or otherwise dispose of the Outstanding Projects unless the Issuer receives an opinion of nationally-recognized bond counsel that such sale or other disposition will not adversely affect the tax-exempt status of the Bonds.

2.6. For purposes of Subsection 2.5 hereof, the Issuer has not included the portion of the Outstanding Projects comprised of personal property that is disposed in the ordinary course at a price that is expected to be less than 25 percent of the original purchase price. The Issuer, upon any disposition of such property, will transfer the receipts from the disposition of such property to the general operating fund and expend such receipts within six months for other governmental programs.

3. Yields.

3.1. The issue price of the Bonds included in the Form 8038-G, is based on the Issue Price Certificate attached hereto.

3.2. The Issuer has not entered into any qualified guarantee or qualified hedge with respect to the Bonds. The yield on the Bonds will not be affected by subsequent unexpected events, except to the extent provided in section 1.148-4(h)(3) of the Treasury Regulations when and if the Issuer enters into a qualified hedge or into any transaction transferring, waiving or modifying any right that is part of the terms of any Bond. The Issuer will consult with nationally recognized bond counsel prior to entering into any of the foregoing transactions.

4. Transferred Proceeds and Disposition Proceeds.

As of the date of this Certificate, all of the amounts received from the sale of the Outstanding Bonds and the investment earnings thereon have been expended.

5. Debt Service Fund.

5.1. The Order confirms the creation of the Debt Service Fund. Other than as described herein, money deposited in the Debt Service Fund will be used to pay the principal of and interest on the Bonds (the "Bona Fide Debt Service Portion"). The Bona Fide Debt Service Portion constitutes a fund that is used primarily to achieve a proper matching of revenues and debt service within each bond year. Such portion will be completely depleted at least once each year except for an amount not in excess of the greater of (a) one-twelfth of the debt service on the Bonds for the previous year, or (b) the previous year's earnings on such portion of the Debt Service Fund. Amounts deposited in the Debt Service Fund constituting the Bona Fide Debt Service Portion will be spent within a thirteen-month period beginning on the date of deposit, and any amount received from the investment of money held in the Debt Service Fund will be spent within a one-year period beginning on the date of receipt.

5.2. A portion of the fund on deposit in the Debt Service Fund, not otherwise used to pay debt service on the Bonds within thirteen months, will be held in trust for the benefit of the holders of the Bonds (the "Reserve Portion"). If on any interest payment or maturity date, sufficient amounts are not available to make debt service payments on the Bonds, the Issuer is required to use such money constituting the Reserve Portion in an amount

sufficient to make such payments. The present value of the investments deposited to the Reserve Portion of the Debt Service Fund and allocable to the Bonds that will be invested at a yield higher than the yield on such bonds will not, as of any date, exceed an aggregate amount which equals the lesser of (a) 10 percent of the stated principal amount (or, in the case of a discount, the issue price) of the Bonds, (b) 1.25 of the average annual debt service on the Bonds, or (c) maximum annual debt service on the Bonds.

5.3. Based on the representation of the Financial Advisor, the amount on deposit in the Reserve Portion of the Debt Service Fund should be maintained as a balance allocable to the Bonds in the Debt Service Fund consistent with accepted standards of prudent fiscal management for similar governmental bodies and in order to provide a reserve against periodic fluctuations in the amount and timing of payment of ad valorem taxes to the Issuer.

5.4. Any money deposited in the Debt Service Fund and any amounts received from the investment thereof that accumulate and remain on hand therein after thirteen months from the date of deposit of any such money or one year after the receipt of any such amounts from the investment thereof shall constitute a third and separate portion of the Debt Service Fund. The yield on any investments allocable to the portion of the Debt Service Fund exceeding of the sum of (a) the Bona Fide Debt Service Portion, (b) the Reserve Portion and (c) an amount equal to the lesser of five percent of the sale and investment proceeds of the Bonds or \$100,000 will be restricted to a yield that does not exceed the yield on the Bonds.

6. Invested Sinking Fund Proceeds, Replacement Proceeds.

6.1. The Issuer has, in addition to the moneys received from the sale of the Bonds, certain other moneys that are invested in various funds which are pledged for various purposes. These other funds are not available to accomplish the purposes described in Section 2 of this Certificate.

6.2. Other than the Debt Service Fund there are, and will be, no other funds or accounts established, or to be established, by or on behalf of the Issuer (a) which are reasonably expected to be used, or to generate earnings to be used, to pay debt service on the Bonds, or (b) which are reserved or pledged as collateral for payment of debt service on the Bonds and for which there is reasonable assurance that amounts therein will be available to pay such debt service if the Issuer encounters financial difficulties. Accordingly, there are no other amounts constituting "gross proceeds" of the Bonds, within the meaning of section 148 of the Internal Revenue Code of 1986 (the "Code").

7. Other Obligations.

7.1. There are no other obligations of the Issuer that (a) are sold at substantially the same time as the Bonds, i.e., within 15 days of the date of sale of the Bonds, (b) are sold pursuant to a common plan of financing with the Bonds, and (c) will be payable from the same source of funds as the Bonds.

7.2. The Issuer (including any of its related entities) has not issued nor does it expect to issue any other tax-exempt obligations during the current calendar year [including certain lease purchase agreements] in an amount which when aggregated with Bonds would exceed \$10,000,000, within the meaning of section 265(b) of the Code.

8. Federal Tax Audit Responsibilities.

The Issuer acknowledges that in the event of an examination by the Internal Revenue Service (the "Service") to determine compliance of the Bonds with the provisions of the Code as they relate to tax-exempt obligations, the Issuer will respond, and will direct its agents and assigns to respond, in a commercially reasonable manner to any inquiries from the Service in connection with such an examination. The Issuer understands and agrees that the examination may be subject to public disclosure under applicable Texas law. The Issuer acknowledges that this Certificate, including any attachments, does not constitute an opinion of Bond Counsel as to the proper federal tax or accounting treatment of any specific transaction.

9. Record Retention and Private Business Use.

The Issuer has covenanted in the Order that it will comply with the requirements of the Code relating to the exclusion of the interest on the Bonds under section 103 of the Code. The Service has determined that certain materials, records and information should be retained by the issuers of tax-exempt obligations for the purpose of enabling the Service to confirm the exclusion of the interest on such obligations under section 103 of the Code. **ACCORDINGLY, THE ISSUER SHALL TAKE STEPS TO ENSURE THAT ALL MATERIALS, RECORDS AND INFORMATION NECESSARY TO CONFIRM THE EXCLUSION OF THE INTEREST ON THE BONDS UNDER SECTION 103 OF THE CODE ARE RETAINED FOR THE PERIODS BEGINNING ON THE RESPECTIVE ISSUE DATE OF THE OUTSTANDING BONDS OR, IN THE CASE OF A SEQUENCE OF REFUNDINGS, THE ISSUE DATE OF THE OBLIGATIONS ORIGINALLY FINANCING THE OUTSTANDING PROJECTS AND ENDING THREE YEARS AFTER THE DATE THE BONDS ARE RETIRED.** The Issuer acknowledges receipt of the letters attached hereto as Exhibit "B" which discusses limitations related to private business use and Exhibit "C" which, in part, discusses specific guidance by the Service with respect to the retention of records relating to tax-exempt bond transactions.

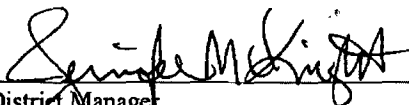
10. Rebate to United States.

The Issuer has covenanted in the Order that it will comply with the requirements of the Code, including section 148(f) of the Code, relating to the required rebate to the United States. Specifically, the Issuer will take steps to ensure that all earnings on gross proceeds of the Bonds in excess of the yield on the Bonds required to be rebated to the United States will be timely paid to the United States. The Issuer acknowledges receipt of the memorandum attached hereto as Exhibit "A" which discusses regulations promulgated pursuant to section 148(f) of the Code.

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DATED as of September 17, 2013.

TROPHY CLUB MUNICIPAL UTILITY DISTRICT NO. 1

By: 
District Manager

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

TCMUD006937

1789

The undersigned represents that, to the best of the undersigned's knowledge, information and belief, the representations contained in Subsection 5.3 of this Federal Tax Certificate and the Schedules attached hereto as Exhibit "E" are, as of September 17, 2013, accurate and complete. We understand that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in this Federal Tax Certificate and by McCall, Parkhurst & Horton L.L.P. (i) in connection with rendering its opinion to the Issuer that interest on the Bonds is excludable from gross income thereof for income tax purposes, and (ii) for purposes of completing the IRS Form 8038-G. The undersigned is certifying only as to facts in existence on the date hereof. Nothing herein represents the undersigned's interpretation of any laws or the application of any laws to these facts.

SOUTHWEST SECURITIES, INC.

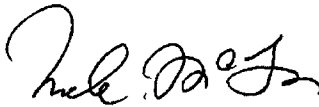
By: 
Name: MARK MC LINEY
Title: SR VP

Exhibit "A"

LAW OFFICES
McCALL, PARKHURST & HORTON L.L.P.

600 CONGRESS AVENUE

SUITE 1800

AUSTIN, TEXAS 78701-3248

TELEPHONE (512) 478-3805
FACSIMILE (512) 472-0871

717 NORTH HARWOOD

SUITE 900

DALLAS, TEXAS 76201-4687

TELEPHONE (214) 754-9200
FACSIMILE (214) 754-9250

700 N. ST. MARY'S STREET

SUITE 1525

SAN ANTONIO, TEXAS 78205-3503

TELEPHONE (210) 225-2800
FACSIMILE (210) 225-2884

January 1, 2006

ARBITRAGE REBATE REGULATIONS

The arbitrage rebate requirements set forth in section 148(f) of the Internal Revenue Code of 1986 (the "Code") generally provide that in order for interest on any issue of bonds¹ to be excluded from gross income (i.e., tax-exempt) the issuer must rebate to the United States the sum of, (1) the excess of the amount earned on all "nonpurpose investments" acquired with "gross proceeds" of the issue over the amount which would have been earned if such investments had been invested at a yield equal to the yield on the issue, and (2) the earnings on such excess earnings.

On June 18, 1993, the U.S. Treasury Department promulgated regulations relating to the computation of arbitrage rebate and the rebate exceptions. These regulations, which replace the previously-published regulations promulgated on May 15, 1989, and on May 18, 1992, are effective for bonds issued after June 30, 1993. This memorandum was prepared by McCall, Parkhurst & Horton L.L.P. and provides a general discussion of these arbitrage rebate regulations. This memorandum does not otherwise discuss the general arbitrage regulations, other than as they may incidentally relate to rebate. This memorandum also does not attempt to provide an exhaustive discussion of the arbitrage rebate regulations and should not be considered advice with respect to the arbitrage rebate requirements as applied to any individual or governmental unit or any specific transaction. Any tax advice contained in this memorandum is of a general nature and is not intended to be used, and should not be used, by any person to avoid penalties under the Code.

McCall, Parkhurst & Horton L.L.P. remains available to provide legal advice to issuers with respect to the provisions of these tax regulations but recommends that issuers seek competent financial and accounting assistance in calculating the amount of such issuer's rebate liability under section 148(f) of the Code and in making elections to apply the rebate exceptions.

Effective Dates

¹ In this memorandum the word "bond" is defined to include any bond, note, certificate, financing lease or other obligation of an issuer.

Copyright 2006 by Harold T. Flanagan, McCall, Parkhurst & Horton L.L.P. All rights reserved.

TCMUD006939

The regulations promulgated on June 18, 1993, generally apply to bonds delivered after June 30, 1993, although they do permit an issuer to elect to apply the rules to bonds issued prior to that date. The temporary regulations adopted by the U.S. Treasury Department in 1989 and 1992 incorporated the same effective dates which generally apply for purposes of section 148(f) of the Code. As such, the previous versions of the rebate regulations generally applied to bonds issued between August 1986 and June 30, 1993 (or, with an election, to bonds issued prior to August 15, 1993). The statutory provisions of section 148(f) of the Code, other than the exception for construction issues, apply to all bonds issued after August 15, 1986, (for private activity bonds) and August 31, 1986, (for governmental public purpose bonds). The statutory exception to rebate applicable for construction issues generally applies if such issue is delivered after December 19, 1989.

The regulations provide numerous transitional rules for bonds sold prior to July 1, 1993. Moreover, since, under prior law, rules were previously published with respect to industrial development bonds and mortgage revenue bonds, the transitional rules contained in these regulations permit an issuer to elect to apply certain of these rules for computing rebate on pre-1986 bonds. The regulations provide for numerous elections which would permit an issuer to apply the rules (other than 18-month spending exception) to bonds which were issued prior to July 1, 1993 and remain outstanding on June 30, 1993. Due to the complexity of the regulations, it is impossible to discuss in this memorandum all circumstances for which specific elections are provided. If an issuer prefers to use these final version of rebate regulations in lieu of the computational method stated under prior law (e.g., due to prior redemption) or the regulations, please contact McCall, Parkhurst & Horton L.L.P. for advice as to the availability of such options.

Future Value Computation Method

The regulations employ an actuarial method for computing the rebate amount based on the future value of the investment receipts (i.e., earnings) and payments. The rebate method employs a two-step computation to determine the amount of the rebate payment. First, the issuer determines the bond yield. Second, the issuer determines the arbitrage rebate amount. The regulations require that the computations be made at the end of each five-year period and upon final maturity of the issue (the "computation dates"). **THE FINAL MATURITY DATE WILL ACCELERATE IN CIRCUMSTANCES IN WHICH THE BONDS ARE OPTIONALLY REDEEMED PRIOR TO MATURITY. AS SUCH, IF BONDS ARE REFUNDED OR OTHERWISE REDEEMED, THE REBATE MAY BE DUE EARLIER THAN INITIALLY PROJECTED.** In order to accommodate accurate record-keeping and to assure that sufficient amounts will be available for the payment of arbitrage rebate liability, however, we recommend that the computations be performed at least annually. Please refer to other materials provided by McCall, Parkhurst & Horton L.L.P. relating to federal tax rules regarding record retention.

Under the future value method, the amount of rebate is determined by compounding the aggregate earnings on all the investments from the date of receipt by the issuer to the computation date. Similarly, a payment for an investment is future valued from the date that the payment is made to the computation date. The receipts and payments are future valued at a discount rate equal to the yield on the bonds. The rebatable arbitrage, as of any computation date, is equal to the excess of the (1) future value of all receipts from investments (i.e., earnings), over (2) the future value of all payments.

The following example is provided in the regulations to illustrate how arbitrage rebate is computed under the future value method for a fixed-yield bond:

"On January 1, 1994, City A issues a fixed yield issue and invests all the sale proceeds of the issue (\$49 million). There are no other gross proceeds. The issue has a yield of 7.0000 percent per year compounded semiannually (computed on a 30 day month/360 day year basis). City A receives amounts from the investment and immediately expends them for the governmental purpose of the issue as follows:

<u>Date</u>	<u>Amount</u>
2/1/1994	\$ 3,000,000
4/1/1994	5,000,000
6/1/1994	14,000,000
9/1/1994	20,000,000
7/1/1995	10,000,000

City A selects a bond year ending on January 1, and thus the first required computation date is January 1, 1999. The rebate amount as of this date is computed by determining the future value of the receipts and the payments for the investment. The compounding interval is each 6-month (or shorter) period and the 30 day month/360 day year basis is used because these conventions were used to compute yield on the issue. The future value of these amounts, plus the computation credit, as of January 1, 1999, is:

<u>Date</u>	<u>Receipts (Payments)</u>	<u>FY (7.0000 percent)</u>
01/1/1994	(\$49,000,000)	(\$69,119,339)
02/1/1994	3,000,000	4,207,602
04/1/1994	5,000,000	6,932,715
06/1/1994	14,000,000	19,190,277
09/1/1994	20,000,000	26,947,162
01/1/1995	(1,000)	(1,317)
07/1/1995	10,000,000	12,722,793
01/1/1996	(1,000)	(1,229)
Rebate amount (01/01/1999)		<u>\$878,664"</u>

General Method for Computing Yield on Bonds

In general, the term "yield," with respect to a bond, means the discount rate that when used in computing the present value of all unconditionally due payments of principal and interest and all of the payments for a qualified guarantee produces an amount equal to the issue price of the bond. The term "issue price" has the same meaning as provided in sections 1273 and 1274 of the Code. That is, if bonds are publicly offered (i.e., sold by the issuer to a bond house, broker or similar person acting in the capacity of underwriter or wholesaler), the issue price of each bond is determined on the basis of the initial offering price to the public (not

to the aforementioned intermediaries) at which price a substantial amount of such bond was sold to the public (not to the aforementioned intermediaries). The "issue price" is separately determined for each bond (i.e., maturity) comprising an issue.

The regulations also provide varying periods for computing yield on the bonds depending on the method by which the interest payment is determined. Thus, for example, yield on an issue of bonds sold with variable interest rates (i.e., interest rates which are reset periodically based on changes in market) is computed separately for each annual period ending on the first anniversary of the delivery date that the issue is outstanding. In effect, yield on a variable yield issue is determined on each computation date by "looking back" at the interest payments for such period. The regulations, however, permit an issuer of a variable-yield issue to elect to compute the yield for annual periods ending on any date in order to permit a matching of such yield to the expenditure of the proceeds. Any such election must be made in writing, is irrevocable, and must be made no later than the earlier of (1) the fifth anniversary date, or (2) the final maturity date.

Yield on a fixed interest rate issue (i.e., an issue of bonds the interest rate on which is determined as of the date of the issue) is computed over the entire term of the issue. Issuers of fixed-yield issues generally use the yield computed as of the date of issue for all rebate computations. Such yield on fixed-yield issues generally is recomputed only if (1) the issue is sold at a substantial premium, may be retired within five years of the date of delivery, and such date is earlier than its scheduled maturity date, or (2) the issue is a stepped-coupon bond. In such cases, the regulations require the issuer to recompute the yield on such issues by taking into account the early retirement value of the bonds. Similarly, recomputation may occur in circumstances in which the issuer or bondholder modify or waive certain terms of, or rights with respect to, the issue or in sophisticated hedging transactions. **IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.**

For purposes of determining the principal or redemption payments on a bond, different rules are used for fixed-rate and variable-rate bonds. The payment is computed separately on each maturity of bonds rather than on the issue as a whole. In certain circumstances, the yield on the bond is determined by assuming that principal on the bond is paid as scheduled and that the bond is retired on the final maturity date for the stated retirement price. For bonds subject to early redemption or stepped-coupon bonds, described above, or for bonds subject to mandatory early redemption, the yield is computed assuming the bonds are paid on the early redemption date for an amount equal to their value.

Premiums paid to guarantee the payment of debt service on bonds are taken into account in computing the yield on the bond. Payments for guarantees are taken into account by treating such premiums as the payment of interest on the bonds. This treatment, in effect, raises the yield on the bond, thereby permitting the issuer to recover such fee with excess earnings.

The guarantee must be an unconditional obligation of the guarantor enforceable by the bondholder for the payment of principal or interest on the bond or the tender price of a tender bond. The guarantee may be in the form of an insurance policy, surety bond, irrevocable letter or line of credit, or standby purchase agreement. Importantly, the guarantor must be legally entitled to full reimbursement for any payment made on the guarantee either immediately or

upon commercially reasonable repayment terms. The guarantor may not be a co-obligor of the bonds or a user of more than 10 percent of the proceeds of the bonds.

Payments for the guarantee may not exceed a reasonable charge for the transfer of credit risk. This reasonable charge requirement is not satisfied unless it is reasonably expected that the guarantee will result in a net present value savings on the bond (i.e., the premium does not exceed the present value of the interest savings resulting by virtue of the guarantee). If the guarantee is entered into after June 14, 1989, then any fees charged for the nonguarantee services must be separately stated or the guarantee fee is not recoverable.

The regulations also treat certain "hedging" transactions in a manner similar to qualified guarantees. "Hedges" are contracts, e.g., interest rate swaps, futures contracts or options, which are intended to reduce the risk of interest rate fluctuations. Hedges and other financial derivatives are sophisticated and ever-evolving financial products with which a memorandum, such as this, can not readily deal. **IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.**

Earnings on Nonpurpose Investments

The arbitrage rebate provisions apply only to the receipts from the investment of "gross proceeds" in "nonpurpose investments." For this purpose, nonpurpose investments are stock, bonds or other obligations acquired with the gross proceeds of the bonds for the period prior to the expenditure of the gross proceeds for the ultimate purpose. For example, investments deposited to construction funds, reserve funds (including surplus taxes or revenues deposited to sinking funds) or other similar funds are nonpurpose investments. Such investments include only those which are acquired with "gross proceeds." For this purpose, the term "gross proceeds" includes original proceeds received from the sale of the bonds, investment earnings from the investment of such original proceeds, amounts pledged to the payment of debt service on the bonds or amounts actually used to pay debt service on the bonds. The regulations do not provide a sufficient amount of guidance to include an exhaustive list of "gross proceeds" for this purpose; however, it can be assumed that "gross proceeds" represent all amounts received from the sale of bonds, amounts earned as a result of such sale or amounts (including taxes and revenues) which are used to pay, or secure the payment of, debt service for the bonds. The total amount of "gross proceeds" allocated to a bond generally can not exceed the outstanding principal amount of the bonds.

The regulations provide that an investment is allocated to an issue for the period (1) that begins on the date gross proceeds are used to acquire the investment, and (2) that ends on the date such investment ceases to be allocated to the issue. In general, proceeds are allocated to a bond issue until expended for the ultimate purpose for which the bond was issued or for which such proceeds are received (e.g., construction of a bond-financed facility or payment of debt service on the bonds). Deposit of gross proceeds to the general fund of the issuer (or other fund in which they are commingled with revenues or taxes) does not eliminate or ameliorate the Issuer's obligation to compute rebate in most cases. As such, proceeds commingled with the general revenues of the issuer are not "freed-up" from the rebate obligation. An exception to this commingling limitation for bonds, other than private activity bonds, permits "investment earnings" (but not sale proceeds or other types of gross proceeds) to be considered spent when deposited to a commingled fund if those amounts are reasonably

expected to be spent within six months. Other than for these amounts, issuers may consider segregating investments in order to more easily compute the amount of such arbitrage earnings by not having to allocate investments.

Special rules are provided for purposes of advance refundings. These rules are too complex to discuss in this memorandum. Essentially, the rules relating to refundings, however, do not require that amounts deposited to the escrow fund to defease the prior obligations of the issuer be subject to arbitrage rebate to the extent that the investments deposited to the escrow fund do not have a yield in excess of the yield on the bonds. Any loss resulting from the investment of proceeds in an escrow fund below the yield on the bonds, however, may be recovered by combining those investments with investments deposited to other funds, e.g., reserve or construction funds.

The arbitrage regulations also provide an exception to the arbitrage limitations for the investment of bond proceeds in tax-exempt obligations. As such, investment of proceeds in tax exempt bonds eliminates the Issuer's rebate obligation. A caveat; this exception does not apply to gross proceeds derived allocable to a bond, which is not subject to the alternative minimum tax under section 57(a)(5) of the Code, if invested in tax-exempt bonds subject to the alternative minimum tax, i.e., "private activity bonds." Such "AMT-subject" investment is treated as a taxable investment and must comply with the arbitrage rules, including rebate. Earnings from these tax-exempt investments are subject to arbitrage restrictions, including rebate.

Similarly, the investment of gross proceeds in certain tax-exempt mutual funds are treated as a direct investment in the tax-exempt obligations deposited in such fund. While issuers may invest in such funds for purposes of avoiding arbitrage rebate, they should be aware that if "private activity bonds" are included in the fund then a portion of the earnings will be subject to arbitrage rebate. Issuers should be prudent in assuring that the funds do not contain private activity bonds.

The arbitrage regulations provide a number of instances in which earnings will be imputed to nonpurpose investments. Receipts generally will be imputed to investments that do not bear interest at an arm's-length (i.e., market) interest rate. As such, the regulations adopt a "market price" rule. In effect, this rule prohibits an issuer from investing bond proceeds in investments at a price which is higher than the market price of comparable obligations, in order to reduce the yield. Special rules are included for determining the market price for investment contracts, certificates of deposit and certain U.S. Treasury obligations. For example, to establish the fair market value of investment contracts a bidding process between three qualified bidders must be used. The fair market value of certificates of deposit which bear a fixed interest rate and are subject to an early withdrawal penalty is its purchase price if that price is not less than the yield on comparable U.S. Treasury obligations and is the highest yield available from the institution. In any event, a basic "common sense" rule-of-thumb that can be used to determine whether a fair market value has been paid is to ask whether the general funds of the issuer would be invested at the same yield or at a higher yield. An exception to this market price rule is available for United States Treasury Obligations - State or Local Government Series in which case the purchase price is always the market price.

Reimbursement and Working Capital

The regulations provide rules for purposes of determining whether gross proceeds are used for working capital and, if so, at what times those proceeds are considered spent. In general, working capital financings are subject to many of the same rules that have existed since the mid-1970s. For example, the regulations generally continue the 13-month temporary period. By adopting a "proceeds-spent-last" rule, the regulations also generally require that an issuer actually incur a deficit (i.e., expenditures must exceed receipts) for the computation period (which generally corresponds to the issuer's fiscal year). Also, the regulations continue to permit an operating reserve, but unlike prior regulations the amount of such reserve may not exceed five percent of the issuer's actual working capital expenditures for the prior fiscal year. Another change made by the regulations is that the issuer may not finance the operating reserve with proceeds of a tax-exempt obligation.

Importantly, the regulations contain rules for determining whether proceeds used to reimburse an issuer for costs paid prior to the date of issue of the obligation, in fact, are considered spent at the time of reimbursement. These rules apply to an issuer who uses general revenues for the payment of all or a portion of the costs of a project then uses the proceeds of the bonds to reimburse those general revenues. Failure to comply with these rules would result in the proceeds continuing to be subject to federal income tax restrictions, including rebate.

To qualify for reimbursement, a cost must be described in an expression (e.g., resolution, legislative authorization) evidencing the issuer's intent to reimburse which is made no later than 60 days after the payment of the cost. Reimbursement must occur no later than 18 months after the later of (1) the date the cost is paid or (2) the date the project is placed in service. Except for projects requiring an extended construction period or small issuers, in no event can a cost be reimbursed more than three years after the cost is paid.

Reimbursement generally is not permitted for working capital; only capital costs, grants and loans may be reimbursed. Moreover, certain anti-abuse rules apply to prevent issuers from avoiding the limitations on refundings. IN CASES INVOLVING WORKING CAPITAL OR REIMBURSEMENT, ISSUERS ARE ADVISED TO CONTACT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTION.

Rebate Payments

Rebate payments generally are due 60 days after each installment computation date. The interim computation dates occur each fifth anniversary of the issue date. The final computation date is on the latest of (1) the date 60 days after the date the issue of bonds is no longer outstanding, (2) the date eight months after the date of issue for certain short-term obligations (i.e., obligations retired within three years), or (3) the date the issuer no longer reasonably expects any spending exception, discussed below, to apply to the issue. On such payment dates, other than the final payment date, an issuer is required to pay 90 percent of the rebatable arbitrage to the United States. On the final payment date, an issuer is required to pay 100 percent of the remaining rebate liability.

Failure to timely pay rebate does not necessarily result in the loss of tax-exemption. Late payments, however, are subject to the payment of interest, and unless waived, a penalty of 50 percent (or, in the case of private activity bonds, other than qualified 501(c)(3) bonds, 100

percent) of the rebate amount which is due. IN SUCH CIRCUMSTANCES, ISSUERS ARE ADVISED TO CONSULT McCALL, PARKHURST & HORTON L.L.P. TO ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES OF THESE TRANSACTIONS.

Rebate payments are refundable. The issuer, however, must establish to the satisfaction of the Commissioner of the Internal Revenue Service that the issuer paid an amount in excess of the rebate and that the recovery of the overpayment on that date would not result in additional rebatable arbitrage. An overpayment of less than \$5,000 may not be recovered before the final computation date.

Alternative Penalty Amount

In certain cases, an issuer of a bond the proceeds of which are to be used for construction may elect to pay a penalty, in lieu of rebate. The penalty may be elected in circumstances in which the issuer expects to satisfy the two-year spending exception which is more fully described under the heading "Exceptions to Rebate." The penalty is payable, if at all, within 60 days after the end of each six-month period. This is more often than rebate. The election of the alternative penalty amount would subject an issuer, which fails the two-year spend-out requirements, to the payment of a penalty equal to one and one-half of the excess of the amount of proceeds which was required to be spent during that period over the amount which was actually spent during the period.

The penalty has characteristics which distinguish it from arbitrage rebate. First, the penalty would be payable without regard to whether any arbitrage profit is actually earned. Second, the penalty continues to accrue until either (1) the appropriate amount is expended or (2) the issuer elects to terminate the penalty. To be able to terminate the penalty, the issuer must meet specific requirements and, in some instances, must pay an additional penalty equal to three percent of the unexpended proceeds.

Exceptions to Rebate

The Code and regulations provide certain exceptions to the requirement that the excess investment earnings be rebated to the United States.

a. *Small Issuers.* The first exception provides that if an issuer (together with all subordinate issuers) *during a calendar year* does not issue tax-exempt bonds² in an aggregate face amount exceeding \$5 million, then the obligations are not subject to rebate. *Only issuers with general taxing powers may take advantage of this exception.* Subordinate issuers are those issuers which derive their authority to issue bonds from the same issuer, e.g., a city and a health facilities development corporation, or which are controlled by the same issuer, e.g., a state and the board of a public university. In the case of bonds issued for public school capital expenditures, the \$5 million cap may be increased to as much as \$15 million. For purposes of measuring whether bonds in the calendar year exceed these dollar limits, current refunding

² For this purpose, "private activity bonds" neither are afforded the benefit of this exception nor are taken into account for purposes of determining the amount of bonds issued.

bonds can be disregarded if they meet certain structural requirements. Please contact McCall, Parkhurst & Horton L.L.P. for further information.

b. Spending Exceptions.

Six-Month Exception. The second exception to the rebate requirement is available to all tax-exempt bonds, all of the gross proceeds of which are expended during six months. The six month rule is available to bonds issued after the effective date of the Tax Reform Act of 1986. See the discussion of effective dates on page two. For this purpose, proceeds used for the redemption of bonds (other than proceeds of a refunding bond deposited to an escrow fund to discharge refunded bonds) can not be taken into account as expended. As such, bonds with excess gross proceeds generally can not satisfy the second exception unless the amount does not exceed the lesser of five percent or \$100,000 and such de minimis amount must be expended within one year.

Certain gross proceeds are not subject to the spend-out requirement, including amounts deposited to a bona fide debt service fund, to a reserve fund and amounts which become gross proceeds received from purpose investments. These amounts themselves, however, may be subject to rebate even though the originally expended proceeds were not. The Code provides a special rule for tax and revenue anticipation notes (i.e., obligations issued to pay operating expenses in anticipation of the receipt of taxes and other revenues). Such notes are referred to as TRANs. To determine the timely expenditure of the proceeds of a TRAN, the computation of the "cumulative cash flow deficit" is important. If the "cumulative cash flow deficit" (i.e., the point at which the operating expenditures of the issuer on a cumulative basis exceed the revenues of the issuer during the fiscal year) occurs within the first six months of the date of issue and must be equal to at least 90 percent of the proceeds of the TRAN, then the notes are deemed to satisfy the exception. This special rule requires, however, that the deficit actually occur, not that the issuer merely have an expectation that the deficit will occur. In lieu of the statutory exception for TRANs, the regulations also provide a second exception. Under this exception, 100 percent of the proceeds must be spent within six months, but before note proceeds can be considered spent, all other available amounts of the issuer must be spent first ("proceeds-spent-last" rule). In determining whether all available amounts are spent, a reasonable working capital reserve equal to five percent of the prior year's expenditures may be set aside and treated as unavailable.

18-Month Exception. The regulations also establish a non-statutory exception to arbitrage rebate if all of the gross proceeds (including investment earnings) are expended within 18 months after the date of issue. Under this exception, 15 percent of the gross proceeds must be expended within a six-month spending period, 60 percent within a 12-month spending period and 100 percent within an 18-month spending period. The rule permits an issuer to rely on its reasonable expectations for computing investment earnings which are included as gross proceeds during the first and second spending period. A reasonable retainage not to exceed five percent of the sale proceeds of the issue is not required to be spent within the 18-month period but must be expended within 30 months. Rules similar to the six-month exception relate to the definition of gross proceeds.

Two Year Exception. Bonds issued after December 19, 1989 (i.e., the effective date of the Omnibus Reconciliation Act of 1989), at least 75 percent of the net proceeds of which are to be used for construction, may be exempted from rebate if the gross proceeds are spent.