PRELIMINARY OFFICIAL STATEMENT

FirstSouthwest
Continuing Disclosure Services
(See "Continuing Disclosure of Information" herein)

Dated August 13, 2012

Ratings:
Moody's: "Aa3"
S&P: "AA-"
(see "Other Information – Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations.

THE BONDS **WILL NOT BE** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$8,645,000*
CITY OF ROWLETT, TEXAS
(Dallas and Rockwall Counties)
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2012

Dated Date: August 15, 2012 | **Due: March 1, as shown below**

PAYMENT TERMS . . . Interest on the $8,645,000* City of Rowlett, Texas, Waterworks and Sewer System Revenue Bonds, Series 2012 (the "Bonds") will accrue from August 15, 2012 (the "Dated Date") and will be payable on March 1, 2013, and on each September 1 and March 1 thereafter until maturity or prior redemption. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (defined below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the general laws of the State of Texas (the "State"), particularly Texas Government Code, Chapter 1502, and an ordinance (the "Ordinance") passed by the City Council, and are special obligations of the City of Rowlett (the "City") and, together with the outstanding Bonds Similarly Secured (hereinafter defined) and any additional parity obligation issued in the future, are payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's Waterworks and Sewer System (the "System") **The City has neither covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) water and sewer improvements and extensions; and (ii) to pay the costs associated with the issuance of the Bonds.

CUSIP PREFIX: 779721

MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by West & Associates, L.L.P., Dallas, Texas, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about September 20, 2012.

COMERICA SECURITIES, INC.

* Preliminary, subject to change.

CUSIP[1] Prefix: 779721

MATURITY SCHEDULE*

1-Mar Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix
2013	$ 365,000			
2014	355,000			
2015	360,000			
2016	360,000			
2017	365,000			
2018	375,000			
2019	380,000			
2020	390,000			
2021	400,000			
2022	410,000			
2023	420,000			
2024	430,000			
2025	445,000			
2026	460,000			
2027	475,000			
2028	495,000			
2029	510,000			
2030	530,000			
2031	550,000			
2032	570,000			

(Accrued Interest from August 15, 2012 to be added)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by Standard & Poor's Financial Services LLC. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the City, the Financial Advisor nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2022 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

* Preliminary, subject to change.

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

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission ("Rule 15c2-12"), this document, as may be supplemented or corrected by the City from time to time, may be treated as an Official Statement, with respect to the Bonds described herein "deemed final" by the City as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding sentence. This document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "Final Official Statement" of the City with respect to the Bonds, as such term is defined in Rule 15c2-12.

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Continuing Disclosure Of Information" for a description of the City's undertaking to provide certain information on a continuing basis. CUSIP Numbers have been assigned to this issue by the CUSIP Global Services for the convenience of the owners of the Bonds.

In connection with this offering, the Underwriter may over-allot or effect transactions which stabilize the market price of the issue at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, IF ANY, CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. ***Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.***

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY .... The City of Rowlett, Texas (the "City") is a political subdivision and home-rule municipal corporation of the State, located in Dallas and Rockwall Counties, Texas. The City covers approximately 19 square miles (see "Introduction - Description of City").

THE BONDS .... The Bonds are issued as $8,645,000* Waterworks and Sewer System Revenue Bonds, Series 2012. The Bonds are issued as serial bonds maturing March 1, 2013 through March 1, 2032, inclusive (see "The Bonds - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from August 15, 2012, and is payable March 1, 2013, and each September 1 and March 1 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

AUTHORITY FOR ISSUANCE.......... The Bonds are issued pursuant to the general laws of the State, particularly Texas Government Code, Chapter 1502, and an Ordinance passed by the City Council of the City (see "The Bonds - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds constitute special obligations of the City and, together with the outstanding Bonds Similarly Secured (hereinafter defined) and any additional parity obligation issued in the future, are payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's Waterworks and Sewer System. **The City has neither covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Security and Source of Payment").

REDEMPTION .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

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

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used for (i) water and sewer improvements and extensions; and (ii) to pay the costs associated with the issuance of the Bonds.

RATINGS .... The Bonds and the presently outstanding revenue debt of the City are rated "Aa3" by Moody's Investors Service, Inc. ("Moody's") and "AA-" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), without regard to credit enhancement (see "Other Information - Ratings").

BOOK-ENTRY-ONLY SYSTEM .... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "The Bonds - Book-Entry-Only System") .

PAYMENT RECORD .... The City has never defaulted in payment of its bonds.

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* Preliminary, subject to change.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population(1)	Water Usage Average Day Usage	Peak Day Usage	Total Usage	Net Available For Debt Service	Average Annual Debt Service Requirements	Coverage of Debt
2007	53,750	5,697,417	13,257,000	2,103,707,000	$ 9,245,286	$ 3,711,137	2.49x
2008	54,150	6,971,436	17,373,000	2,594,077,000	9,094,605	3,610,627	2.52x
2009	54,250	6,970,917	16,238,000	2,521,741,000	9,505,686	3,520,824	2.70x
2010	54,500	7,258,833	24,319,000	2,667,185,000	8,976,984	3,420,010	2.62x
2011	56,310	7,227,667	22,606,000	3,091,023,000	10,264,258	3,305,907	3.10x

(1) Source: City Officials.

For additional information regarding the City, please contact:

Brian Funderburk Assistant City Manager City of Rowlett, Texas 4000 Main Street Rowlett, Texas 75088 (972) 412-6100	or	W. Boyd London, Jr. Marti Shew First Southwest Company 325 N. St. Paul Suite 800 Dallas, Texas 75201 (214) 953-4000

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Todd W. Gottel Mayor	5 Years	May 2013	Owner, Consulting Company
Doug Phillips Mayor Pro Tem	4 Years	May 2014	Information Technology
Chris Kilgore Councilmember	4 Years	May 2014	Attorney
Donna Davis Councilmember	2 Years	May 2013	Retired
Carl Pankratz Councilmember	1 Year	May 2014	Attorney
Ron Miller Councilmember	1 Year	May 2013	Consultant
Michael Gallops Deputy Mayor Pro Tem	2 Years	May 2013	Social Worker

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service With City	Total Governmental Service
Lynda Humble	City Manager	3 Year	22 Years
Brian Funderburk	Assistant City Manager	9 Years	27 Years
Vacant	Director of Finance	**	**
Stacey Chadwick	Interim City Secretary	8 Years	8 Years

CONSULTANTS AND ADVISORS

Auditors .... Patillo, Brown & Hill, LLP
Waco, Texas

Bond Counsel .... McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor .... First Southwest Company
Dallas, Texas

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$8,645,000*
CITY OF ROWLETT, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2012

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $8,645,000* City of Rowlett, Texas, Waterworks and Sewer System Revenue Bonds, Series 2012. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Ordinance") to be adopted on the date of sale of the Bonds which will authorize the issuance of the Bonds, except as otherwise indicated herein (see "Selected Provisions of the Ordinance").

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, First Southwest Company, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated on September 4, 1952, and first adopted its Home Rule Charter on December 6, 1979, and last amended it on August 19, 2003. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The term of office is three years with the terms of the Mayor and three of the Council members' terms expiring in even-numbered years and the other terms of the three Council members expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 44,503, while the estimated projected 2012 population is 56,310. The City covers approximately 19 square miles. For more information about the City, see "Appendix A - General Information Regarding the City".

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 15, 2012, and mature on March 1 in each of the years and in the amounts shown on page 2. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1, 2013 and on each September 1 and March 1 thereafter until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the general laws of the State of Texas, particularly Texas Government Code, Chapter 1502, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with certain outstanding parity revenue bonds of the City (the "Previously Issued Bonds") and any additional parity bonds which may be issued in the future ("Additional Bonds"), secured by a first lien on and pledge of the Net Revenues of the System after the payment of maintenance and operating expenses. Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City**. The Ordinance does not create a lien or mortgage on the System, except the Net Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

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* Preliminary, subject to change.

As additional security, a Reserve Fund is required to be maintained in an amount at least equal to the average annual debt service requirements of the outstanding Previously Issued Bonds, the Bonds and any Additional Bonds (collectively, "Bonds Similarly Secured") issued on a parity with the Bonds. Any additional amount required to be accumulated in the fund by reason of the issuance of the Bonds will be funded over a sixty month period in accordance with the provisions of the Ordinance (see "Selected Provisions of the Ordinance").

PLEDGED REVENUES . . . All of the Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the Reserve Fund and Interest and Sinking Fund are irrevocably pledged for the payment of the Bonds Similarly Secured and interest thereon. The Bonds Similarly Secured are equally and ratably secured by a first lien upon the Net Revenues of the System.

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, replacement and improvement expenses, any other costs deductible in determining Net Revenues and to pay interest on and the principal of the Bonds Similarly Secured, and to establish and maintain the funds provided for in the Ordinance. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness.

OUTSTANDING BONDS . . . The City has outstanding Previously Issued Bonds secured by and payable from Net Revenues on parity with the Bonds, as follows:

Dated Date	Outstanding Debt(1)	Issue Description
06/01/04	$ 2,350,000	Waterworks and Sewer System Revenue Refunding Bonds, Series 2004
09/15/04	1,685,000	Waterworks and Sewer System Revenue Bonds, Series 2004A
04/15/05	5,060,000	Waterworks and Sewer System Revenue Refunding Bonds, Series 2005
08/15/05	5,285,000	Waterworks and Sewer System Revenue Bonds, Series 2005A
06/15/06	7,710,000	Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2006
	$ 22,090,000	

(1) As of July 15, 2012.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2023, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2022, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC, while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants. Such DTC Participants may then implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to any DTC Participants or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC Participants or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "THE BONDS - Book-Entry-Only System" herein.)

AMENDMENTS. . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharges obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished;

provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Current Interest Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

ADDITIONAL BONDS . . . The City may issue additional revenue obligations payable from the Net Revenues which together with the Previously Issued Bonds and the Bonds shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System, subject, however, to complying with certain conditions in the Ordinance. See "Selected Provisions of the Ordinance" for terms and conditions to be satisfied for the issuance of additional bonds.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

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

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

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

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

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

Redemption notices for the Bonds shall be sent to DTC. If less than all of the Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Underwriter.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Bonds is discontinued, printed Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate designated amount as the Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange (i) during the period commencing on the Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth business day of the preceding month.

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

REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners of the Bonds, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or owners of the Certificates of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds will be DTC. See "The Bonds - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of Bonds.

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SOURCES AND USES OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:		
Par Amount	$	-
Reoffering Premium		
Accrued Interest		
TOTAL SOURCES	$	-
Uses:		
Deposit to Construction Fund	$	-
Costs of Issuance		
Total Underwriter's Discount		
Deposit to Debt Service Fund		
TOTAL USES	$	-

THE SYSTEM

WATERWORKS SYSTEM

WATER SUPPLY . . .On June 3, 1965, the City entered into a forty-year contract with the North Texas Municipal Water District for the purchase of treated water. The agreement has been amended and extended and has a current termination date of May 3, 2024. The contract requires the City to take or pay for a minimum of 3,192,000 gallons annually at the base rate of $1.54 per 1,000 gallons. The minimum annual delivery is adjusted annually and the rates are adjusted periodically.

WATER STORAGE . . . The City has three elevated storage tanks in use with a combined capacity of 3,250,000 gallons. The Highway 66 elevated storage tank has a 1,000,000 gallon capacity, the Martha elevated storage tank has a 750,000 gallon capacity and the Chiesa elevated storage tank has a 1,500,000 gallon capacity. Total ground storage facilities consist of 7 ground storage facilities with a combined capacity of 13,500,000 gallons. The City's water distribution system includes approximately 242 miles of distribution lines and three water pump stations.

TABLE 1 - HISTORICAL WATER USAGE (GALLONS)

Fiscal Year Ended 30-Sep	Total Usage	Average Day Usage	Peak Day Usage	Actual Peak Day	Revenues Received
2007	2,103,707,000	5,697,417	13,257,000	08/26	$ 9,274,953
2008	2,594,077,000	6,971,436	17,373,000	08/08	10,157,285
2009	2,521,741,000	6,970,917	16,238,000	07/15	10,420,898
2010	2,667,185,000	7,258,833	24,319,000	09/22	10,971,126
2011	3,091,023,000	7,227,667	22,606,000	08/18	12,658,481

TABLE 2 - WATER REVENUE BY CATEGORY

Fiscal Year 9/30	Residential	Commercial
2007	$ 8,503,555	$ 900,950
2008	9,391,196	937,128
2009	9,962,648	899,153
2010	10,522,368	882,934
2011	11,881,755	639,972

TABLE 3 - TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

Customer	Type of Business	FYE 9/30/2011 Water Usage	Percent of Total Water Usage	Revenue Billed
Garland Independent School District	School District	60,760,300	1.97%	$ 274,395
Zachry Construction	Construction	17,277,800	0.56%	65,985
Lake Pointe Medical Center	Hospital	14,704,300	0.48%	64,281
Senior Care at Lake Point	Retirement Center	8,268,100	0.27%	40,151
Rowlett Nursing Homes	Healthcare	7,936,300	0.26%	34,015
Covington Nursery	Commercial	6,476,800	0.21%	31,432
Hillcrest Chiesa L.P.	Mobile Home Park	5,476,400	0.18%	24,128
Williams Construction	Hydrant	5,227,800	0.17%	21,041
Lakeview Car Wash	Commercial	3,461,300	0.11%	15,193
Elgin B Roberson Park	Park	3,197,000	0.10%	13,809
		132,786,100	4.30%	$ 584,430

TABLE 4 - WATER RATES(EFFECTIVE OCTOBER 1, 2011)

Base Customer by Meter Size	
Less than 1 Inch	$10.60 per month
1 Inch	$13.80 per month
1 1/2 Inches	$20.16 per month
2 Inches	$28.02 per month
3 Inches	$46.95 per month
4 Inches	$55.44 per month
6 Inches	$92.87 per month
8 Inches	$109.88 per month
Volume Charge for all consumption	$3.90 per 1,000 gallons up to 25,000 gallons
	$4.40 per 1,000 gallons over 25,000 gallons

WASTEWATER SYSTEM

The City has contracted with the City of Garland ("Garland") for treatment of its wastewater since its incorporation. The City entered into its current wastewater treatment contract with Garland in May, 1994. The contract provides that all City wastewater will be treated by Garland. The contract will terminate on April 1, 2020, if the City provides notice of termination to Garland during the year 2015. No minimum payments are required under the contract. Rates are reviewed yearly and adjusted under the terms of the contract. The 2010/11 rate is $2.42 per 1,000 gallons. The City's sewer collection system includes approximately 160 miles of collection lines and 26 lift stations.

TABLE 5 - SEWER RATES (EFFECTIVE OCTOBER 1, 2011)

Base Customer Charge - All Meters	$16.17 per month
Volume Charge for All Consumption	$4.39 per 1,000 gallons
Minimum Residential Bill (with no consumption)	$58.50 per month

TABLE 6 – SEWER REVENUE BY CATEGORY

Year Ended 9/30	Residential	Commercial
2007	$ 7,980,259	$ 760,275
2008	8,085,470	780,773
2009	8,438,767	757,031
2010	8,816,477	759,635
2011	9,326,121	569,153

TABLE 7 – SEWAGE FLOW (GALLONS – 000'S)

Year Ending 9/30	Amount in Gallons (000)
2007	1,462,050
2008	1,291,777
2009	1,358,127
2010	1,358,940
2011	1,348,971

TABLE 8 - TEN LARGEST WASTEWATER CUSTOMERS (BASED ON GALLONS CONSUMED)

Customer	Type of Business	FYE 9/30/2011 Sewer Usage	Percent of Total Sewer Usage	Revenue Billed
Lake Pointe Medical	Hospital	13,330,141	0.84%	$ 54,485
Garland Independent School District	School District	9,429,260	0.59%	46,576
Senior Care at Lake Pointe	Retirement Center	7,071,704	0.44%	30,013
Rowlett Nursing Home	Health Care	6,961,499	0.44%	29,157
Hillcrest Chiesa L.P.	Mobile Home Park	5,476,399	0.34%	23,430
Lakeview Car Wash	Commercial	3,461,294	0.22%	14,631
Elgin B Roberson Park	Park	3,196,999	0.20%	13,475
Prayosha Texas	Hotel	2,416,400	0.15%	10,253
Wal-Mark Stores	Commercial	2,031,500	0.13%	8,671
Texas Commercial Funding	Academy	1,896,020	0.12%	8,683
		55,271,216	3.47%	$ 239,374

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DEBT INFORMATION

TABLE 9 - PRO-FORMA WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9-30	Outstanding Debt Service Principal	Outstanding Debt Service Interest	Outstanding Debt Service Total	The Bonds[1] Principal	The Bonds[1] Interest	The Bonds[1] Total	Total Debt Service Requirements	% of Principal Retired
2012	$ 3,470,000	$ 1,315,986	$ 4,785,986	$ -	$ -	$ -	$ 4,785,986	
2013	3,015,000	908,489	3,923,489	365,000	218,463	583,463	4,506,952	
2014	3,145,000	783,199	3,928,199	355,000	228,095	583,095	4,511,294	
2015	1,665,000	684,180	2,349,180	360,000	224,731	584,731	2,933,911	
2016	1,740,000	613,855	2,353,855	360,000	220,573	580,573	2,934,428	42.32%
2017	1,815,000	534,926	2,349,926	365,000	215,713	580,713	2,930,639	
2018	1,615,000	454,682	2,069,682	375,000	209,785	584,785	2,654,467	
2019	1,495,000	382,383	1,877,383	380,000	202,590	582,590	2,459,973	
2020	1,295,000	318,636	1,613,636	390,000	194,230	584,230	2,197,866	
2021	1,015,000	266,623	1,281,623	400,000	184,764	584,764	1,866,387	69.05%
2022	1,060,000	219,489	1,279,489	410,000	174,435	584,435	1,863,923	
2023	1,110,000	169,866	1,279,866	420,000	162,930	582,930	1,862,796	
2024	1,165,000	117,653	1,282,653	430,000	149,941	579,941	1,862,594	
2025	1,220,000	62,912	1,282,912	445,000	135,894	580,894	1,863,806	
2026	735,000	17,456	752,456	460,000	120,958	580,958	1,333,414	90.85%
2027	-	-	-	475,000	105,130	580,130	580,130	
2028	-	-	-	495,000	88,296	583,296	583,296	
2029	-	-	-	510,000	70,480	580,480	580,480	
2030	-	-	-	530,000	51,679	581,679	581,679	
2031	-	-	-	550,000	31,776	581,776	581,776	98.33%
2032	-	-	-	570,000	10,773	580,773	580,773	100.00%
	$ 25,560,000	$ 6,850,334	$ 32,410,334	$ 8,645,000	$ 3,001,234	$ 11,646,234	$ 44,056,568	

(1) Average life of the issue – 10.813 years. Interest on the Bonds has been calculated at an average rate of 3.210% for purposes of illustration. Preliminary, subject to change.

TABLE 10 - AUTHORIZED BUT UNISSUED REVENUE BONDS

The City has no voted but unissued revenue bonds, and pursuant to State law is not required to approve its revenue bonds through election.

ANTICIPATED ISSUANCE OF REVENUE BONDS . . . The City does not anticipate the issuance of additional revenue bonds within the next 12 months.

ECONOMIC DEVELOPMENT PROGRAMS. . . . The City is authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State of Texas, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

The City has established the Rowlett Economic Opportunity Foundation, a nonprofit corporation created under the Texas Non-Profit Corporation Act, Article 1396-1.01 et. seq., Vernon's Texas Civil Statutes, as amended, for the purpose, among others, of acquiring land or other properties for economic development purposes. The City has also established the City of Rowlett Economic Progress Corporation, a non-profit corporation created pursuant to Subchapter D, Chapter 431, Texas Transportation Code, as amended, for the purposes of promoting state and local economic development and stimulating business and commercial activity in the City and administering programs for such purposes for the City, with the power to issue bonds or other obligations to fund such activities.

PENSION FUND

Plan Description – The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual report that includes financial statements and required supplementary information (RSI for TMRS; the report also provides detailed explanations of the contribution s, benefits and actuarial methods an assumptions used by the System. This report may be obtained by writing to TMRS at P.O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ration (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Creidt	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI repeating	50% of CPI repeating

Contributions – Under the State law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable rate for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity increases.

The City contributes to the TMRS plan at an actuarial determined rate. Both the Employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and the net pension obligation/(asset) are as follow:

Annual Required Contribution	$ 3,210,666
Interest on Pension Obligation	70,496
Adjustment to the ARC	(58,432)
Annual Pension cost	$ 3,222,730
Contributions Made	(2,756,435)
Increase (Decrease in net Pension Obligation)	$ 466,295
Net Pension Obligation/(Asset), beginning of year	939,945
Net Pension Obligation/(Asset), end of year	1,406,240

Year Ending	Pension Cost (APC)	Contribution Made	% of APC Contributed	Pension Obligation	Annual Required Contribution Rate
9/30/2009	$ 2,880,006	$ 2,477,998	86.04%	$ 402,008	16.11%
9/30/2010	3,176,570	2,638,633	83.07%	939,945	17.00%
9/30/2011	3,222,730	2,756,434	85.53%	1,406,241	17.30%

The required contribution rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011 also follows:

Actuarial Valuation Date	12/31/2009	12/31/2010	12/31/2011
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of Payroll	Level percent of Payroll	Level percent of Payroll
GASB 25 Equivalent Single Amortization Period	28.0 years; closed period	27.2 years; closed period	25.8 years; closed period
Amortization Period for new Gaines/Losses	30 years	30 years	30 years
Asset valuation method	10-year Smoothed Market	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment rate of return*	7.5%	7.0%	7.0%
Projected salary increases*	Varies by age and service	Varies by age and service	Varies by age and service
*Includes inflation at	3.0%	3.0%	3.0%
Cost-of-living adjustment	2.1%	2.1%	1.5%

Schedule of Funding Information

Actuarial Valuation Date	12/31/2009	12/31/2010[1]	12/31/2010[2]	12/31/2011
Actuarial value of assets	$ 46,369,748	$ 50,557,269	$ 61,940,838	$ 68,481,440
Actuarial accrued liability (AAL)	64,957,600	70,409,555	78,870,069	79,428,640
Percent funded	71.4%	71.8%	78.5%	86.2%
Unfunded (overfunded) actuarial accrued liability (UAAL)	18,587,852	19,852,286	16,929,231	10,947,200
Annual covered payroll	19,167,685	18,736,655	18,736,655	18,682,434
UAAL as a percent of covered payroll	97.0%	106.0%	90.4%	58.6%

(1) Actuarial valuation performed under the original fund structure.
(2) Actuarial valuation performed under the new fund structure.

Other Post-Employment Benefits (OPEB)

POST-RETIREMENT HEALTH CARE BENEFITS

The City offers its retired employees health insurance benefits through a single-employer defined benefit OPEB plan, under City policy. The benefit plan was established by the City in 2002 and last amended in 2005. No separate pension plan report is issued. This plan is administered by the City and no separate audited financial statements are available.

Retired employees who have satisfied the retirement requirement as defined by the Texas Municipal Retirement System (TMRS) are eligible to participate. The City has elected the retirement requirement as any age with 20 years of service or 5 years of service for age 60 and above. Retirees under 65 retiring under the TMRS system are eligible to receive premium payments of individual (not dependent) health insurance benefits for a period of time equal to one month for every full year of service with the City. Employees are eligible immediately upon retirement and the eligibility only runs from the retirement date. Active employees do not contribute any of their wages toward retiree health care benefits. The City pays the employee-only premium for medical coverage, based on the City's Core Medical Plan Option. Retired employees are required to pay 100% of any additional premium expense for health benefits purchased upon retirement.

Spouse and eligible dependents are eligible to continue to purchase health benefits per Chapter 175 provisions. The City does not pay any portion of spouse or dependent medical coverage.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City implemented the provisions of GASB 45 for the fiscal year ending September 30, 2009, as required by GASB. The City's annual OPEB cost for the current year and the related information is listed below:

Annual Required Contribution (ARC)	$ 364,990
Interest on Net OPEB Obligation	22,560
Adjustment to the ARC	(20,902)
Annual OPEB Cost	$ 366,648
Employer contribution	128,169
Increase in Net OPEB Obligation	$ 238,479
Net OPEB Obligation, beginning of year	501,339
Net OPEB Obligation, ending of year	$ 739,818

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization) follow:

Fiscal Year Ended	OPEB Cost	Employer Contribution	Percentage Contribution	OPEB Obligation
9/30/2009	$ 281,737	$ 27,930	9.91%	$253,807
9/30/2010	355,198	107,666	30.31%	501,339
9/30/2011	364,990	128,169	35.12%	739,818

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	Percent of Covered Payroll
6/30/2008	$ -	$ 2,924,489	$ 2,924,489	0.00%	$ 19,165,822	15.26%
12/31/2009	$ -	$ 3,325,706	$ 3,325,706	0.00%	$ 18,924,557	17.57%

Actuarial Methods and Assumptions - Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefit provided at the time of each valuation and the historical pattern o f sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Valuation Date	December 31, 2009	December 31, 2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	30 Years; Open	28 Years; Open
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment Rate of Return	4.5%	4.5%
Payroll Growth Rate	3.0%	3.0%
Projected Salary Increases	3.0%	3.0%
General Inflation Rate	3.0%	3.0%

POST-RETIREMENT SUPPLEMENTAL DEATH BENEFIT

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefit Fund (SDBF). The City elected by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City can terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions - The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire career.

The City's contribution to the TMRS SDBF for the years ended 2011, 2010 and 2009 were $1,865, $1,916 and $1,892, respectively, at the City required contribution rate of 0.01% which equaled the required contribution for the year.

FINANCIAL INFORMATION

TABLE 11 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
Operating Revenues and	2011	2010	2009	2008	2007
Interest Income:					
Charges for Services	$ 23,579,081	$ 20,655,985	$ 19,887,837	$ 19,173,007	$ 18,255,587
Tap and Meter Fees	-	14,479	18,248	35,884	40,149
Service Charges and Other	13,759	695,631	664,728	344,522	655,288
Interest Income	94,918	201,771	707,507	1,303,771	2,241,553
Miscellaneous	-	184,171	-	-	-
Total Operating Revenues	$ 23,687,758	$ 21,752,037	$ 21,278,320	$ 20,857,184	$ 21,192,577
Operating Expenses:					
Water and Sewer	$ 7,508,879	$ 6,929,170	$ 6,942,836	$ 5,935,090	$ 6,378,256
Salaries and Related Expenses	1,761,296	1,697,922	1,790,339	1,711,310	1,879,320
Maintenance and Supplies	1,279,937	1,069,003	465,205	724,472	473,467
Utilities	471,073	474,218	474,143	497,136	395,269
Legal and Professional	10,094	32,070	59,095	48,504	58,928
Intragovernmental Charges	2,036,322	1,994,072	1,994,072	2,023,052	1,926,716
Miscellaneous	355,899	578,598	46,944	823,015	835,335
Total Operating Expenses	$ 13,423,500	$ 12,775,053	$ 11,772,634	$ 11,762,579	$ 11,947,291
Net Available for Debt Service	$ 10,264,258	$ 8,976,984	$ 9,505,686	$ 9,094,605	$ 9,245,286
Average Annual Debt Service	$ 3,305,907 (1)	$ 3,420,010	$ 3,520,824	$ 3,610,627	$ 3,711,137
Coverage of Debt Service	3.10x	2.62x	2.70x	2.52x	2.49x
Number of Water Customers	19,311	19,354	19,354	19,006	19,019
Number of Sewer Customers	18,323	18,384	18,388	18,456	18,002

(1) Does not include the Bonds.

TABLE 12 - COVERAGE AND FUND BALANCES (1)

Average Annual Principal and Interest Requirements, 2012-2032	$ 2,097,932
Coverage of Average Requirements by 9/30/11 Net Available for Debt Service	3.10x
Maximum Annual Principal and Interest Requirements, 2012	$ 4,785,986
Coverage of Maximum Requirements by 9/30/11 Net Available for Debt Service	2.14x
Waterworks and Sewer System Revenue Bonds Outstanding 9/30/11	$ 25,560,000
Reserve Fund Balance, 1/31/2012	$ 3,203,833

(1) Includes the Bonds, Preliminary, subject to change.

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TABLE 13 - VALUE OF THE SYSTEM

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Land	$ 741,645	$ 510,688	$ 510,688	$ 510,688	$ 510,688
Buildings	1,041,640	1,041,640	1,041,640	509,032	509,032
Waterworks & Sewer System	101,219,380	100,542,626	96,802,046	93,968,271	87,926,802
Machinery & Equipment	6,780,160	6,601,135	6,695,918	5,109,442	5,099,772
Construction in Progress	6,367,623	3,892,484	3,100,483	3,302,602	2,730,323
Total Value of Plant	$ 116,150,448	$ 112,588,573	$ 108,150,775	$ 103,400,035	$ 96,776,617
Less: Depreciation	51,303,242	47,233,086	43,587,197	37,669,711	34,435,462
Net System Value	$ 64,847,206	$ 65,355,487	$ 64,563,578	$ 65,730,324	$ 62,341,155

TABLE 14 - CITY'S EQUITY IN SYSTEM

	Fiscal Year Ended September 30,				
	2011	2010	2009	2008	2007
Resources					
Net System Value	$ 64,847,206	$ 65,355,487	$ 64,563,578	$ 65,730,324	$ 65,730,324
Cash, Investments, Receivables & Inventory	27,030,930	29,471,239	35,150,400	36,671,896	40,081,473
Other Resources	724,658	793,666	854,649	833,147	1,009,017
Total Resources	$ 92,602,794	$ 95,620,392	$ 100,568,627	$ 103,235,367	$ 106,820,814
Obligations					
Revenue Bonds Payable	$ 38,036,178	$ 41,158,964	$ 44,366,046	$ 47,463,167	$ 50,825,836
Less: Reserve Fund	3,225,296	3,311,403	3,301,429	3,068,331	2,849,815
Net Revenue Bonds Payable	$ 34,810,882	$ 37,847,561	$ 41,064,617	$ 44,394,836	$ 47,976,021
G O Bonds Payable	-	-	-	-	-
Certificates of Obligation Payable	-	-	-	-	-
Other Obligations	3,548,806	3,503,500	3,773,271	4,014,716	4,245,257
Total Obligations	$ 38,359,688	$ 41,351,061	$ 44,837,888	$ 48,409,552	$ 52,221,278
City's Equity in System	$ 54,243,106	$ 54,269,331	$ 55,730,739	$ 54,825,815	$ 54,599,536
Percentage of City's Equity in System	58.58%	56.75%	55.42%	53.11%	51.11%

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . Fund balances will be maintained in an amount adequate to assure that any legal requirements are met and that adequate funds are available to meet cash flow requirements. It is the City's intention to maintain in the General Fund 13%, and Water and Sewer Fund 20% of the next year's budgeted expenditures. Cash balances are to be monitored yearly during budgeting preparation.

Enterprise Fund transfers to the General Fund . . . The City has adopted a financial policy whereby an annual transfer is made from the enterprise funds (generally, the water and sewer departments) to the General Fund. The transfer is considered a payment in lieu of taxes and is equal to 5% of the gross revenues of the enterprise fund.

Use of Bond Proceeds . . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City's Home Rule Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year, by the middle of June, the departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year. After review by the Finance Department and the City Manager a budget of estimated revenues and expenditures is submitted to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with state statutes. The City Council will adopt a budget prior to October 1. If the Council fails to adopt a budget then the budget proposed by the City Manager is deemed to have been adopted.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) (i) that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Insurance Fund, or are secured as to principal by obligations described in the clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) guaranteed investment contracts secured by obligations of the United States of America or its agencies and instrumentalities, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letter of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

TABLE 15 – CURRENT INVESTMENTS

As of June 30, 2012, the City's investable funds were invested in the following categories:

Description	Book Value	% of Investment	Market Value	% of Investment
U.S. Treasury Bond/Note	$ 8,722,486	16.98%	$ 8,777,960	17.05%
Federal Agency Bond/Note	10,006,962	19.48%	10,043,596	19.51%
TexPool	32,647,360	63.54%	32,647,360	63.43%
Total	$ 51,376,808	100.00%	$ 51,468,916	100.00%

SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance. Such summary does not purport to be complete and reference should be made to the Ordinance, copies of which may be obtained from the City's Financial Advisor, for the complete provisions and wording thereof.

Definitions. Unless otherwise expressly provided or unless the context clearly requires otherwise, in the Ordinance the following terms shall have the meanings specified below:

"Additional Parity Bonds" means the additional parity bonds and obligations permitted to be issued or entered into under the provisions of the Ordinance and the ordinances authorizing the Outstanding Parity Bonds.

“Average Annual Debt Service” means that average amount which, at the time of computation, will be required to pay the Debt Service of obligations when due and derived by dividing the total of such Debt Service by the number of years then remaining before final maturity. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

“Bond Fund” means the interest and sinking fund established in the Ordinance.

“Bonds Similarly Secured” means the Outstanding Parity Bonds, the Bonds and Additional Parity Bonds.

“Debt Service” As of any particular date of computation, with respect to any obligations and with respect to any period, means the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear, or would have borne, interest at the highest rate reached, or that would have been applied to such obligations (using the index or measure for computing interest applicable to such obligations) during the twenty-four (24) month period next preceding the date of computation, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

"Fiscal Year" means the twelve month period used by the City in connection with the operation of the System, which may be any twelve consecutive month period established by the City.

“Gross Revenues” means, with respect to the System, all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established by the City for the payment and security of obligations payable solely from and secured only by a lien on and pledge of the Net Revenues.

“Maintenance and Operating Expenses” means all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining “Net Revenues.” Depreciation shall never be considered as an expense of Maintenance and Operation. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply or treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract.

"Net Revenues" means the Gross Revenues of the System, with respect to any period, after deducting the System’s Maintenance and Operating Expenses during such period.

“Outstanding” - When used in the Ordinance with respect to Bonds means, as of the date of determination, all Bonds theretofore issued and delivered under the Ordinance, except:

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

(2) those Bonds deemed to be paid by the City in accordance with the provisions hereof, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in the Ordinance.

“Outstanding Parity Bonds” means the outstanding and unpaid obligations of the following series: City of Rowlett, Texas, Waterworks and Sewer System Revenue Refunding Bonds, Series 2004, dated June 1, 2004; City of Rowlett, Texas, Waterworks and Sewer System Revenue Bonds, Series 2004A, dated September 15, 2004; City of Rowlett, Texas Waterworks and Sewer System Revenue Refunding Bonds, Series 2005, dated April 15, 2005; City of Rowlett, Texas Waterworks and Sewer System Revenue Bonds, Series 2005A, dated August 15, 2005, and City of Rowlett, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2006, dated June 15, 2006.

"Owner" means the person who is the registered owner of a Bond or Bonds, as shown in the Register.

"Parity Revenue Bonds" means the Outstanding Parity Bonds, the Bonds and Additional Parity Bonds.

“Reserve Fund” means the reserve fund described below.

“System” means all properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water and the collection, treatment and disposal of water-carried wastes, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term “System” shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of “Special Facilities Bond,” which are hereby defined as being special revenue obligations of the City which are not Bonds Similarly Secured but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds Similarly Secured including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

“System Fund” means the revenue fund described and confirmed in the Ordinance.

Security for the Bonds. The Bonds in the Ordinance authorized are “Additional Parity Bonds” as described in the ordinances authorizing the Outstanding Parity Bonds, and the principal thereof and the interest thereon, together with the principal of and interest on the Outstanding Parity Bonds, are and shall be payable from and secured by an irrevocable first lien on and pledge of the Net Revenues to be derived from the operation and/or ownership of the System. The Bonds and the interest thereon are special obligations of the City payable solely from the Net Revenues, and the Owners thereof shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation.

Pledge. The City covenants and agrees that the Net Revenues, with the exception of those in excess of the amounts required to establish and maintain the special Funds created for the payment and security of the Bonds Similarly Secured, are irrevocably pledged for the payment of the Bonds Similarly Secured, and the interest thereon, and it is ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien upon the Net Revenues.

Article 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Net Revenues granted by the City under the Ordinance, and is therefore valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues granted by the City under this Section is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing of a security interest in said pledge to occur.

Special Funds. To provide for the payment and security of the Bonds Similarly Secured, the following special funds heretofore created and established in connection with the Outstanding Parity Bonds, are reaffirmed and shall continue to be kept and maintained as set forth below:

(i) City of Rowlett Waterworks and Sewer System Interest and Sinking Revenue Bond Fund, hereinafter called the “Bond Fund.” This fund shall be kept and maintained at a depository bank of the City, and moneys deposited in this fund shall be used to pay principal of and interest on the Bonds similarly Secured when and as the same become due and payable; and

(ii) City of Rowlett Revenue Bond Reserve Fund, hereinafter called the “Reserve Fund.” This fund shall be kept and maintained at a depository bank of the City, and moneys deposited in this fund shall be used to pay principal and interest on the Bonds Similarly Secured falling due at any time when there is insufficient money available in the Bond Fund.

System Fund. The City covenants and agrees and reaffirms with the registered owners of the Outstanding Parity Bonds that Gross Revenues of the System (excluding earnings and income derived from investments held in the Bonds Fund and Reserve Fund) shall be, as collected, deposited into a separate account maintained with an official depository bank of the City and known as the “Water and Sewer System Fund” (herein called the “System Fund”) and such revenues of the System shall be kept separate and apart from all other funds of the City. All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of precedence shown:

FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses of the System, as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.

SECOND: To the payment of the amounts required to be deposited in the Bond Fund for the payment of Debt Service on the Bonds Similarly Secured as the same becomes due and payable.

THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with the provisions of the Ordinance or any other ordinance relating to the issuance of Bonds Similarly Secured.

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

<u>Bond Fund</u>. For purposes of paying the principal of and interest on the Bonds as the same becomes due and payable, the City covenants and agrees to cause to be deposited to the Bond Fund from the Net Revenues of the System an amount which, together with the amounts required to be deposited into the Bond Fund by the ordinances authorizing the issuance of the Bonds Similarly Secured, is equal to one hundred per centum (100%) of the amount required to fully pay such principal and interest falling due on the Bonds Similarly Secured on or before each maturity and interest payment date, such payments to be made in substantially equal monthly installments on or before the last day of each month and beginning on or before the last day of the month next following the month in which the Bonds are delivered.

The monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds shall continue to be made as hereinabove described until such time as the total amount on deposit in said fund and the Reserve Fund is equal to the amount required to pay all outstanding Bonds Similarly Secured (principal and interest) or the Bonds are no longer Outstanding. Also, accrued interest and premium, if any, received from the purchaser of the Bonds, as well as earnings derived from the investment of moneys in the Bond Fund and any proceeds of the Bonds not required to accomplish the purposes for which the Bonds were issued, shall be deposited in the Bond Fund, and shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required which would otherwise be required to be deposited in the Bond Fund from the Net Revenues.

<u>Reserve Fund</u>. The City covenants and agrees to accumulate and maintain in the Reserve Fund as a reserve for the payment of Bonds Similarly Secured an amount (hereinafter called the "Required Reserve") equal to not less than the Average Annual Debt Service of Outstanding Bonds Similar Secured (calculated on a fiscal year basis and determined as of the date the last series of Bonds Similarly Secured are delivered or incurred, as the case may be). The Required Reserve shall be used solely for the payment of the principal of and interest on Bonds Similarly Secured when other funds available therefor are insufficient and, in addition, may be used to the extent not required to maintain the "Required Reserve," to pay, or provide for the payment of, the final principal amount of a series of Bonds Similarly Secured so that such series of Bonds Similarly Secured is no longer deemed to be "Outstanding" as such term is defined with reference to the Bonds.

In addition to the sums prescribed in the ordinances for the Outstanding Parity Bonds, the City shall deposit into the Reserve Fund on or before the last day of each month, beginning on or before the last day of the month next following the month in which the Bonds are delivered, from available Net Revenues of the System an equal amount per month which will within five calendar years of the date of the Bonds accumulate the additional amount required to be on deposit in the Reserve Fund as a result of the issuance of the Bonds. So long as the money and investments in the Reserve Fund total not less than the Required Reserve, no additional deposits need be made to the credit of the Reserve Fund, but when and if the Reserve Fund at any time contains less than the Required Reserve (other than as a result of the issuance of Additional Parity Bonds as provided herein), the City covenants and agrees to cure the deficiency in the Required Reserve by resuming monthly deposits to said Fund from the Net Revenues, such monthly deposits to be in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund and to be made on or before the last day of each month until the total Required Reserve then to be maintained in said Fund has been fully restored, and the City covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Net Revenues of the System shall be applied and appropriated and used to establish and maintain the Required Reserve and cure any deficiency in such amount as required by the provisions of the Ordinance and any other ordinance pertaining to obligations the payment of which are secured by the Required Reserve. During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund.

<u>Deficiencies in Funds</u>. If in any month the City shall, for any reason, fail to pay into the Bond Fund or the Reserve Fund the full amounts above stipulated, amounts equivalent to such deficiencies shall be set apart and paid into said funds from the first available Net Revenues of the System, or from any other sources available for such purpose, in the following month or months and such payments shall be in addition to the amounts hereinabove provided to be otherwise paid into said funds during such month or months.

<u>Excess Revenues</u>. Any revenues in excess of those required to establish and maintain the special funds as above provided may be used for any lawful purpose.

Security of Funds. All moneys on deposit in the funds referred to in the Ordinance shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and moneys on deposit in such funds shall be used only for the purposes permitted by the ordinances authorizing the issuance of Bonds Similarly Secured.

Investments.

(i) Money in any Fund established pursuant to the Ordinance may, at the option of the City, be placed in time deposits (in authorized depositories of the City) or certificates of deposit secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or be invested, including investments held in book-entry form, in direct obligations of the United States of America and obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Parity Bonds.

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

Investment Income. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in the Ordinance, be credited to and deposited in the System Fund.

Additional Bonds. In addition to the right to issue obligations of inferior lien as authorized by the laws of the State of Texas, the City reserves the right to issue additional obligations which, when duly authorized and issued in compliance with the terms and conditions hereinafter appearing, shall be on a parity with the Bonds, payable from and equally secured by a first lien on and pledge of the Net Revenues of the System. The additional obligations may be issued in one or more installments provided, however, that none shall be issued unless and until the following conditions have been met:

(a) The Finance Director of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) shall have executed a certificate stating (a) that, to the best of his knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

(b) The additional obligations are made to mature March 1 or September 1 of each of the years in which they are scheduled to mature.

(c) The City has secured from a Certified Public Accountant a certificate or opinion showing that, according to the books and records of the City, the Net Earnings for either (i) the last completed Fiscal Year, or (ii) a consecutive twelve-month period out of the last fifteen months immediately preceding the month the ordinance authorizing the issuance of the Additional Parity Bonds is adopted, are equal to at least (i) 1.25 times the Average Annual Debt Service of all Bonds Similarly Secured which will be outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued and (ii) 1.10 times the maximum annual Debt Service payment to be paid in a Fiscal Year for the outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Parity Bonds then being issued. In making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the date the ordinance authorizing the issuance of the Additional Parity Bonds is adopted and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion.

(d) As used above, the Term "Net Earnings" shall mean the Gross Revenues of the System after deducting the Maintenance and Operating Expenses of the System, but not depreciation charges or other expenditures which, under generally accepted accounting principles, should be treated as capital expenditures.

(e) The ordinance authorizing the additional obligations makes provision for deposits to be made into:

(i) The Bond Fund established for the payment of Bonds Similarly Secured of amounts adequate to pay the principal and interest requirements of the additional obligations as the same becomes due; and

(ii) The Reserve Fund of an additional amount so that the total amount to be accumulated in such Fund will be equal to not less than the average annual principal and interest requirement for all Bonds Similarly Secured to be outstanding after giving effect to the issuance of the proposed additional obligations (such average annual requirement to be calculated on a Fiscal Year basis as of the date of delivery of the proposed additional obligations). Any additional amount required to be deposited in the Reserve Fund shall be required (by such authorizing ordinance) to be accumulated therein within five calendar years of the date of such proposed additional obligations.

(f) Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the City Council may deem to the best interest of the City and its inhabitants, and if less than all such outstanding Bonds Similarly Secured are refunded the proposed refunding bonds shall be considered as "Additional Parity Bonds" under the provisions of this Section and the certificate required in subdivision (c) shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment).

Rates and Charges. The City further covenants and agrees with the Owners that, so long as any of the Bonds Similarly Secured remain outstanding and unpaid, it shall fix and maintain rates and collect charges for the facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient at all times:

(i) To pay all Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs;

(ii) To produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured and the amounts required to be deposited into the special funds created and established for the payment and security of the Bonds Similarly Secured, and to pay any other legally incurred indebtedness payable only from and secured solely by a lien on and pledge of the Net Revenues of the System.

(iii) To produce Net Revenues equal to at least 1.20 times the Debt Service due and payable on outstanding Bonds Similarly Secured.

Maintenance and Operation; Insurance. The City covenants and agrees that the System shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds Similarly Secured are outstanding, the City agrees to maintain casualty and other insurance on the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties. Nothing in the Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the City from doing so.

No Free Service. The City covenants and agrees that no free service shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

Records and Accounts; Accounting Reports. The City covenants and agrees that so long as any of the Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System parts separate and apart from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to said System, as provided by Tex. Gov't Code Ann. ch. 1502 or other applicable law. The Owner or Owners of any Bonds or any duly authorized agent or agents of such Owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto and to inspect the System and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

(i) A statement of the income and expenditures of the components of the System for such fiscal year.

(ii) A balance sheet as of the end of such Fiscal Year.

(iii) A statement of the source and disposition of all funds of the System during such Fiscal Year.

(iv) The Accountant's comments regarding the manner in which the City has complied with the covenants and requirements of the Ordinance and any other ordinance authorizing the issuance of Bonds Similarly Secured and his recommendations for any changes or improvements in the operation, records and accounts of the System.

(iv) A list of the insurance policies in force at the end of the Fiscal Year on the System properties, setting out as to each policy the amount thereof, the risk covered, the name of the insurer, and the policy's expiration date.

Expenses incurred in making the audits above referred to are to be regarded as Maintenance and Operating Expenses of the System and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, and, upon written request, to the original purchasers and any subsequent Owner. The audits shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the System, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the System. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

Competition. That so far as it legally may, the City covenants and agrees, for the protection and security of the Bonds Similarly Secured and the holders thereof from time to time and until all Bonds Similarly Secured shall have been retired, that it will not grant a franchise for the installation or operation of any water and/or sewer system other than those owned by the City, that it will prohibit the operation of any waterworks or sewer system other than those operated by the City, and the operation of any such system by anyone other than the City is hereby prohibited.

Further Covenants. The City further covenants and agrees by and through the Ordinance as follows:

(i) That it has the lawful power to pledge the revenues supporting this issue of Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including power existing under Tex. Gov't Code Ann. ch. 1502.

(ii) That other than for the payment of the Bonds Similarly Secured, and obligations of the City payable from and secured by a lien on and pledge of the revenues of the System subordinate and inferior to such lien and pledge for the Bonds Similarly Secured, the Net Revenues of the System have not been pledged in any manner to the payment of any debt or obligation of the City, nor of said System.

(iii) It will duly and punctually keep, observe and perform each and every undertaking, covenant and condition on its part to be kept, observed and performed, contained in the Ordinance and in the ordinances authorizing the Outstanding Parity Bonds and any Additional Parity Bonds, and that it will prior to the maturity of each installment of interest and prior to the maturity of each Outstanding Parity Bond, Bond, and Additional Parity Bond issued thereunder, make available at the principal office of the Paying Agent/Registrar, but only from the sources herein provided, sufficient funds to promptly pay such principal and interest.

(iv) The City will comply with all of the terms and conditions of any and all franchises, permits and authorizations applicable to or necessary with respect to the System, and which have been obtained from any governmental agency; and the City has or will obtain and keep in full force and effect all franchises, permits, authorizations and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation and maintenance of the System.

Events of Default. Each of the following occurrences or events for the purpose of the Ordinance is declared to be an "Event of Default," to-wit:

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

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City, the failure to perform which materially, adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City.

Remedies for Default.

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

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

Remedies Not Exclusive.

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

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

Severability. If any section, article, paragraph, sentence, clause, phrase or word in the Ordinance, or application thereof to any persons or circumstances is held invalid or unconstitutional by a court of competent jurisdiction, such holding shall not affect the validity of the remaining portion of the Ordinance, despite such invalidity, which remaining portions shall remain in full force and effect.

TAX MATTERS

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

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the documents authorizing the Bonds relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The Underwriter have represented that the initial public offering price to be paid for the Bonds, as stated on page 2, of the Official Statement is less than the principal amount thereof (the "Original Issue Discount Bonds"). The difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public offering of the Bonds. Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such

Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by such owner. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds, although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB") which will make such information available to general public, without charge, through its Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports . . . The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 15 and in Appendix B. The City will update and provide this information within 6 months after the end of each fiscal year ending in or after 2012. The City will provide the updated information to the MSRB.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include preliminary financial statements, if the City commissions an audit and it is completed by the required time. If preliminary financial statements are not available by the required time, the City will provide preliminary financial information and operating data by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B to the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

Disclosure Events . . . The City shall notify the MSRB, in a timely manner not in excess of ten Business Days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Bonds nor the Ordinance make any provision for liquidity enhancement.) As used in clause 12 above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and official or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

The City, by way of an administrative error, failed to provide funds to U.S. Bank Corporate Trust Services (the "paying agent"), to pay the coupon due February 15, 2012 for the City of Rowlett, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2006. The City was timely with the wiring of funds for their remaining February 15, 2012 requirements.

The City wired funds to the paying agent on February 16, 2012 to satisfy the obligation. The City is examining its administrative procedures and making the necessary changes to remedy future oversights.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding revenue debt of the City are rated "Aa3" by Moody's and "AA-" by S&P, without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the City Attorney and City staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operation.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The City will furnish a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations. A copy of the proposed form of the opinion of Bond Counsel is attached hereto as Appendix C. Though it may represent the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Except as noted below, Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions "The Bonds" (excluding the information under the subcaptions "Outstanding Bonds," "Book-Entry-Only System," "Remedies" and "Sources and Uses of Bond Proceeds"), "Selected Provisions of the Ordinance," "Tax Matters," "Continuing Disclosure of Information" (excluding the information under the subcaption "Compliance with Prior Undertakings", and the subcaptions "Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas," and the first paragraph under "Legal Matters" under the caption "Other Information," and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein, and with respect to the Bonds and the Ordinance such information conforms to the provisions of thereof. In connection with the transactions described herein, Bond Counsel represents only the City. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

Certain legal matters will be passed upon for the Underwriter by West & Associates, L.L.P., Dallas, Texas, Counsel to the Underwriter. The legal fee to be paid to Counsel for the Underwriter in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

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

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of $ ________. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

The Ordinance authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriter.

Mayor
City of Rowlett, Texas

ATTEST:

City Secretary
City of Rowlett, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION

The City of Rowlett is a retail center located in northeast Dallas County just north of Interstate Highway 30. The City is located four miles east of Garland and 12 miles northeast of Dallas. The City is traversed by State Hwy 66 which connects Rowlett with the cities of Garland and Dallas to the west and Rockwall to the east.

The City is bordered by Lake Ray Hubbard on three sides, and is influenced by its increasing recreation and residential development. Lake Ray Hubbard, with approximately 32 miles of shoreline within Rowlett's City Limits, has become a major recreational lake due to its location in the Dallas Metropolitan Area, contributing to the City's growth.

POPULATION

The City of Rowlett's census population in 1970 was 2,243; in 1980 was 7,522; in 1990 was 23,260, and in 2000 was 44,503, increasing 48% from 1990 to 2000. The 2010 census was 56,199, a 21% increase since 2000. The current estimated 2012 population of the City is 56,310.

SERVICES

Natural gas is supplied to the citizens of Rowlett through Atmos Gas Company. Water is supplied by the North Texas Municipal Water District, with the City's primary sources of water coming from Lake Lavon and Lake Ray Hubbard. Telephone service is provided by Verizon.

The City offers the 911 emergency telephone system and employs 73 full-time sworn police officers and 10 dispatchers. The fire department employs 75 full-time firemen.

The City operates a public library, which has an arrangement with the Dallas County Public Library to further enhance materials available to the public. The library has approximately 75,103 volumes, circulating video and large print collections, newspapers, children's summer reading program and adult programming.

Rowlett offers one hospital with emergency room services and four operating suites. Lake Pointe Medical Center is a 187,090 square foot medical/surgical facility with a 112 bed capacity. The hospital is equipped with state-of-the-art equipment and services. Numerous clinics and doctors are also located in the area to serve in conjunction with the hospital.

In addition to Lake Ray Hubbard 30 parks are located within the City and two country clubs are within two miles of the City. A 50,515 square foot Rowlett Community Centre provides meeting room and banquet room accommodations as well as a fully-equipped recreational facility. The Golf Course, which includes a dining club, opened May 1, 2000.

TRANSPORTATION

The City has access to Interstate Highways 20, 30, 45 and 635. In addition, the President George Bush Turnpike (Tollway) opened in December, 2011. Dallas Area Rapid Transit ("DART") serves the area with an express route system that provides non-stop service to downtown Dallas each weekday and several local routes that travel to the nearby Garland Central Transit Center for transfers to other routes in the DART system. Rail freight service is provided by the Union Pacific Railroad. All common carriers serving Dallas offer motor freight line service in the City. The City is located approximately 35 miles east of Dallas/Fort Worth International Airport.

EDUCATION

One high school, two middle schools and 10 elementary schools are located within the City. The City is generally served by Garland Independent School District, with Rockwall Independent School District providing one elementary school.

Colleges within 30 minutes of the City include Southern Methodist University, University of Dallas, University of Texas at Dallas, Amber University and Dallas County and Collin County Community Colleges.

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BUILDING PERMITS

Fiscal Year Ended 9/30	Commercial Number	Commercial Amount	Residential Number	Residential Amount
2008	13	$ 12,530,540	84	$ 15,158,440
2009	8	10,703,000	44	7,697,048
2010	2	450,000	26	3,691,677
2011	3	9,944,350	22	5,279,425
2012	6	6,950,000	38	9,745,000

(1) As of June 30, 2012.

PRINCIPAL EMPLOYERS

Employer	Number of Employees
Garland ISD (City schools only)	1,092
Lake Pointe Medical Center	686
City of Rowlett	371
Target Corporation	275
Wal-mart Supercenter	250
Senior Care at Lake Pointe	190
Rowlett Nursing Home	152
Store Décor	126
Albertson's, Inc.	120
H&S Manufacturing	82
	3,344

Source: City of Rowlett – Economic Development Department.

EMPLOYMENT RATES

Employment statistics for Dallas and Rockwall Counties are as follows:

	2012 Annual Average(1)	2011 Annual Average	2010 Annual Average	2009 Annual Average	2008 Annual Average
Dallas County					
Civilian Labor Force	1,179,708	1,176,200	1,166,085	1,152,946	1,137,970
Total Employment	1,091,084	1,077,721	1,063,304	1,057,857	1,075,720
Unemployed	88,624	98,479	102,781	95,089	62,250
Percent Unemployed	7.51%	8.37%	8.81%	8.25%	5.47%
Rockwall County					
Civilian Labor Force	40,402	40,255	40,033	38,488	38,036
Total Employment	37,839	37,375	37,007	35,684	36,287
Unemployed	2563	2880	3026	2804	1749
Percent Unemployed	6.34%	7.15%	7.56%	7.29%	4.60%

Source: Texas Employment Commission, Austin, Texas.
(1) Averages as of May 2012.

APPENDIX B

EXCERPTS FROM THE

CITY OF ROWLETT, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

The information contained in this Appendix consists of excerpts from the City of Rowlett, Texas Annual Financial Report for the Year Ended September 30, 2011, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of City Council
City of Rowlett, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Rowlett, Texas, as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Rowlett's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Rowlett, Texas, as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and important for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison schedule – General Fund on pages 15 through 23 and 71 through 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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TEMPLE, TX (254) 791-3460 ■ ALBUQUERQUE, NM (505) 266-5904

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rowlett, Texas' basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and the State of Texas Uniform Grant Management Standards, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules and Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Pattillo, Brown & Hill, L.L.P.

March 30, 2012

MANAGEMENT'S
DISCUSSION AND ANALYSIS

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Our discussion and analysis of the City of Rowlett's financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended September 30, 2011. Please read it in conjunction with the accompanying transmittal letter and the accompanying basic financial statements. All amounts, unless otherwise indicated, are expressed in millions of dollars.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of September 30, 2011, by $117 million (net assets). Of this amount, $13 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.

- The City of Rowlett's net assets of governmental activities increased by $1 million, or 3% percent as a result of this year's operations. Program revenues increased $1 million due principally to increased capital grants. General revenues declined $1 million primarily as a result of lower property tax revenue, lower interest income due to spending down bond funds and lower interest rates. Overall operating expenses decreased $1 million with nearly every category experiencing declines including interest on long term debt. Net assets of the City's business type activities increased by $0.4 million, or 0.5%. This increase is from a combination of factors. Water revenues increased $1.7 million on additional water use of 500 million gallons and to a pass through rate increase; sewer charges increased approximately $0.5 million due to increased flows and a pass through rate increase; and refuse charges changed only slightly. Payment penalties increased only slightly which was expected with the introduction of new payment options. Capital contributions and grants increased due to several new projects. Contractual services and maintenance and repairs increased $0.2.

- As of September 30, 2011, the City's governmental funds reported combined ending fund balances of $23 million, a decrease of $1 million from the prior year, primarily due to spending down $7 million in bond construction fund and cash funds for various repairs and capital improvements. Of this amount, $7 million is unassigned and available for spending subject to the City's reserve policies.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $7 million or approximately 22% percent of total General Fund expenditures.

- The City's total bonded debt for governmental activities decreased by $6 million during the current fiscal year. Total bonded debt for Enterprise Funds decreased by $4 million during the fiscal year ended September 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's discussion and analysis is intended to serve as an introduction to the City of Rowlett's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Rowlett is improving or deteriorating. The statement of net assets combines and consolidates governmental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. While helpful, other non-financial factors should also be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure (i.e. roads, drainage improvements, storm and sewer lines, etc.), to assess the overall health or financial condition of the City.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but not used vacation leave). Both the statement of net assets and the statement of activities are prepared utilizing the accrual basis of accounting as opposed to the modified accrual basis used in prior reporting models.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two kinds of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, libraries, development, public services and operations, public works, information services and general administration. Property taxes, sales taxes and franchise fees finance most of these activities.

- Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system, refuse system, and municipal drainage system are reported here.

Reporting the City's Most Significant Funds

<u>Fund Financial Statements</u>

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law or by bond covenants. However, the City establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

- **Governmental funds –** The majority of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions.

The relationships or differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is detailed in a reconciliation following the fund financial statements. The City of Rowlett maintains 10 individual governmental funds for budget and financial statement presentation purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and the Capital Projects Fund, all of which are considered to be major funds. Data from the other 7 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

- **Proprietary funds –** The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's Enterprise Funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

  The City maintains three Enterprise Funds. The City uses Enterprise Funds to account for its water and sewer, refuse, and municipal drainage. The funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, municipal drainage and solid waste functions, all three of which are considered to be major funds of the City.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's budgetary comparative information for required funds.

The City as a Whole – Government-wide Financial Statements

The City's combined net assets were $117 million as of September 30, 2011. Analyzing the net assets and net expenses of governmental and business-type activities separately, governmental type activities net assets are $44 million and business type activities net assets are $73 million. This analysis focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities.

Table 1
City of Rowlett, Texas' Condensed Schedule of Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Current and other assets	$ 39,053	$ 41,011	$ 30,310	$ 33,042	$ 69,363	$ 74,053
Capital assets	102,560	105,272	91,562	92,731	194,122	198,003
Total assets	141,613	146,283	121,872	125,773	263,485	272,056
Current liabilities	13,202	15,380	2,391	7,413	15,593	22,793
Noncurrent liabilities	84,782	88,695	46,105	45,334	130,887	134,029
Total liabilities	97,984	104,075	48,496	52,747	146,480	156,822
Net assets:						
Invested in capital assets, net of related debt	32,375	33,070	63,268	64,417	95,643	97,487
Restricted	4,747	1,148	3,225	3,157	7,972	4,305
Unrestricted	6,507	7,990	6,883	5,452	13,390	13,442
Total net assets	$ 43,629	$ 42,208	$ 73,376	$ 73,026	$ 117,005	$ 115,234

By far, the largest portion of the City's net assets (84%) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Governmental and Business-type activities increased the City's net assets by $2 million. The key elements of this increase are as shown in Table 2 below:

Table 2
City of Rowlett, Texas' Changes in Net Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Revenues						
Program revenues						
Charges for services	$ 5,768	$ 6,091	$ 29,352	$ 27,396	$ 35,120	$ 33,487
Operating grants and contributions	963	485	-	-	963	485
Capital grants and contributions	2,688	1,533	560	21	3,248	1,554
General revenues						
Property taxes	23,968	24,650	-	-	23,968	24,650
Sales taxes	5,768	6,228	-	-	5,768	6,228
Other taxes	125	60	-	-	125	60
Investment income	166	232	103	214	269	446
Other	3,385	3,442	-	-	3,385	3,442
Total revenues	42,831	42,721	30,015	27,631	72,846	70,352
Expenses						
General government	5,044	4,812	-	-	5,044	4,812
Public safety	20,077	20,244	-	-	20,077	20,244
Public works	12,321	12,747	-	-	12,321	12,747
Culture and recreation	4,796	5,139	-	-	4,796	5,139
Development	726	845	-	-	726	845
Interest on long-term debt	3,445	3,562	-	-	3,445	3,562
Water and sewer	-	-	19,715	19,293	19,715	19,293
Refuse	-	-	3,281	3,242	3,281	3,242
Drainage	-	-	1,670	2,677	1,670	2,677
Total expenses	46,409	47,349	24,666	25,212	71,075	72,561
Increase (decrease) in net assets before transfers	(3,578)	(4,628)	5,349	2,419	1,771	(2,209)
Transfers	4,999	4,625	(4,999)	(4,625)	-	-
Increase (decrease) in net assets	1,421	(3)	350	(2,206)	1,771	(2,209)
Net assets, beginning	42,208	42,211	73,026	75,232	115,234	117,443
Net assets, ending	$ 43,629	$ 42,208	$ 73,376	$ 73,026	$ 117,005	$ 115,234

Governmental Activities

Total revenues for governmental activities, exclusive of transfers, was $43 million in fiscal year 2011, down 0% from the previous year, primarily in increased capital grants and contributions, net of lower property taxes. There were modest decreases in property taxes and investment income. Of this total, the most significant revenue source is property tax revenues which represent $24 million or 56% of the total. The most significant governmental expense for the City was in providing public safety for the community, which incurred expenses of $20 million, or 43% of total expenses. These expenses were partially offset by revenues collected from a variety of sources, with the largest being from court fines totaling over $1 million. Depreciation for all governmental capital assets totaled $7 million representing 15% of the total.

Business-type Activities

Revenues of the City's business-type activities were $30 million for the fiscal year ending September 30, 2011, up 9%. Water and sewer charges account for $24 million of this amount or 80%. Total operating expenses were $25 million of which the Water and Sewer Enterprise accounted for $20 million or 80%. Total net assets for business-type activities increased $0.4 million attributable primarily to increased water sales. Changes in net assets for the Water and Sewer, Drainage, and Refuse were ($1 million), (($0.4) million), and (($0.3) million, respectively.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental Funds. The focus of the City of Rowlett's governmental funds is to provide information on the near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $23 million. Approximately 29% percent of this total amount, $7 million, constitutes unassigned fund balance. The remainder of the fund balance is restricted to indicate that it is not available to pay for new spending because it has already been committed to pay for capital projects of $13 million, or other items totaling $1 million. The fund balance for all governmental funds decreased by $1 million over the previous fiscal year primarily due to spending bond construction funds for capital improvements.

Ultimately, revenues did exceed expectations from the final estimate by $0.2 million and, expenditures savings surpassed expectations, through aggressive management, by $0.7 million. As a result, the net increase in the fund balance in the General Fund including funding for a new capital lease was $1.6 million better than the increase projected in the final amended budget.

Revenues in the Debt Service Fund, exclusive of transfers increased by $0.1 million primarily as a result of increasing the portion of the tax rate dedicated for debt service by $0.1 cent. This change was necessary to cover a 2% decrease in taxable assessed values.

The Capital Projects Fund expended $7 million in fiscal year 2011, a decrease from 2010 expenditures of $3 million primarily due to the completion of several significant projects in the prior year. Revenues increased by $0.7 million primarily due to increased grant income. The City did not issue any new bonds for capital projects in 2011 electing to spend down construction funds accumulated in previous years.

Proprietary Funds. The City's proprietary fund statements provide detail on the City's individual business-like activities. The City maintains three Enterprise Funds, including the Water and Sewer Fund, Refuse Fund, and Drainage Fund that make up the proprietary funds.

The Water and Sewer, Drainage, and Refuse Enterprises recorded changes in net assets of $1 million, ($0.3) million, and ($0.4) million, respectively. The increase in net assets in the Water and Sewer Fund was due primarily from increased water sales. Operating income increased from the prior year with increases in operating revenues primarily services charges, offset by increases in operating expenses, primarily system improvements, repair and maintenance and contractual services. Investment income was approximately $0.1 million lower than the previous year and transfers to other funds to support capital projects essentially remained flat. Capital contributions decreased by approximately $.4 million.

The decrease in net assets in the Drainage Fund is primarily due to a reduction in capital contributions. Operating revenues remained relatively flat from the prior year with the decrease from operating revenue offset by the decrease in operating expenses. The decrease in net assets for the Refuse Fund was primarily due to an increase in the transfer to the Capital Projects Fund to provide resources for the alley rehabilitation project.

CAPITAL ASSETS

At the end of the fiscal year 2011, the City had $194 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table 3 below.) This amount represents a net decrease (including additions net of depreciations and disposals) of -2% over the prior fiscal year.

Table 3
City of Rowlett, Texas' Capital Assets at Year-end
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
Land	$ 27,437	$ 25,897	$ 742	$ 511	$ 28,179	$ 26,408
Buildings and improvements	44,776	44,638	1,101	1,364	45,877	46,002
Machinery and equipment	12,870	12,208	7,102	6,900	19,972	19,108
Construction in progress	4,413	3,492	7,214	4,612	11,627	8,104
Infrastructure	103,213	102,632	138,851	137,702	242,064	240,334
Total	192,709	188,867	155,010	151,089	347,719	339,956
Accumulated depreciation	(90,149)	(83,595)	(63,448)	(58,358)	(153,597)	(141,953)
Total capital assets	$ 102,560	$ 105,272	$ 91,562	$ 92,731	$ 194,122	$ 198,003

This year's major construction projects completed included:

Rowlett Creek Meter Station	$	361
CAT Asphalt Roller, John Deere Loader, 2 dump trucks		281
Jet Truck		249
911 System		183
Total	$	1,074

Additional information on the City's capital assets can be found in Note V.C. to the basic financial statements.

DEBT

At year-end, the City had $120 million in bonds and tax anticipation notes outstanding as compared to $129 million at the end of the prior fiscal year, a decrease of 7% – as shown in Table 4.

Table 4
City of Rowlett, Texas' Outstanding Debt at Year-end
(in millions)

	Governmental Activities		Business-type Activities		Total Government	
	2011	2010	2011	2010	2011	2010
General obligation bonds (backed by the City)	$ 34.5	$ 37.6	$ -	$ -	$ 34.5	$ 37.6
Certificates of obligation and tax anticipation notes (backed by the City)	43.0	45.4	4.0	4.2	47.0	49.6
Revenue bonds (backed by fee revenues)	-	-	38.0	41.3	38.0	41.3
Total bonded debt	$ 77.5	$ 83.0	$ 42.0	$ 45.5	$ 119.5	$ 128.5

The City's general obligation bonds and tax notes have been assigned an AA- rating from Standard & Poor's and an Aa2 rating from Moody's Investor Service, and the City has never defaulted on a bond. The City's utility revenue bonds carry an Aa3 from Moody's and A from Standard & Poor's. The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. However, in May 2003, the citizens of Rowlett amended the Charter to limit the amount of taxes that may be levied to $1.25 per $100 of assessed valuation. The current ratio of tax-supported debt to assessed value of all taxable property is 2.4%.

Additional information on the City's long-term bonded debt can be found in Note V.E. to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for the business-type activities. The most important factor is the challenging economic times that Americans and Rowlett citizens are currently facing. No longer are our national, state and local economies growing. Instead, we are faced with declining revenue sources, high unemployment, and limited liquidity in the lending markets. Because this economic condition is likely to last for the next five years at least, it is no longer prudent to make decisions in one-year increments hoping next year gets better. During budget planning a five year financial planning model was used that allows us to see how the decisions we make today will impact our future. In most cases, the model will not change the decisions but will provide important insights as to the future impact of today's decisions. In addition to being the most challenging economic times in recent history, the next 5 to 10 years may be some of the most critical times facing Rowlett's future. With the completion of President George Bush Turnpike (PGBT) and Dallas Area Rapid Transit (DART) Light Rail right around the corner, the final phase of Rowlett's development future prior to build out is here. The decisions made now will set the stage for development choices made in the future. One of the challenges is providing for current citizens while simultaneously funding opportunities for future development to grow and diversify the tax base.

Overwhelmingly, citizens all across the country, whether on a national, state or local level, are demanding accountability from their government as to how money is spent. Because the City is challenged with a high tax rate, a high debt structure, and high water rates it is not a realistic option to consider raising taxes to cover shrinking revenues. Knowing that, we must be fiscally accountable to Rowlett citizens, staff has developed a strategy to begin to address that gap from a "sustainability" perspective. Sustainability has been defined as meeting the needs of the present without compromising the future. For the City, sustainability is planning for and providing the appropriate level of service, quality of life, and public safety that can be consistently maintained within the available resources.

Rowlett's current population is approximately 56,230. Rowlett's expected population at build out will be approximately 70,000. Rowlett's greatest economic strength is its location on Lake Ray Hubbard and within the crosshairs of the President George Bush Turnpike and I-30. The three largest job sectors are retail and wholesale trade, services, and manufacturing, but it is anticipated that future growth for the region will focus on health care and small businesses, rather than technology. Nationwide employment statistics show the region as leading the country in employment growth, ahead of much larger metropolitan areas. The reasonable costs of living and homes priced below the national average continue to make Rowlett an attractive area for new business locations and re-locations.

Rowlett has had a successful financial year, when considering what the rest of the nation experienced stemming from the continuation of a national recession. The direction of the Council, work by staff, and input from citizens has moved the community forward. With the process that the City Council and management staff instituted with its goals alignment process, the City is working smarter, with better-defined goals and objectives, so staff effort delivers more targeted value.

Much of Rowlett's financial stability is due to the fact that it is not reliant on any one or two specific industries. In fact, the single largest property taxpayer in the City represents only 1.34% percent of the total assessed valuation and the entire top 10 taxpayers only account for 5.28% percent of the total assessed valuation – a positive factor to bond rating agencies. This may be the most significant factor explaining why Rowlett has financially performed so well over the past five years.

These indicators were taken into account when adopting the budget for fiscal year 2012. The total 2011-12 combined budget appropriation totaled $80.3 million for all funds. This represents a decrease over the previous year adopted budget of $83.1 million. Ad valorem tax revenue is determined by two major factors: the total assessed value established by the central Appraisal District of Dallas County and the tax rate established by the Rowlett City Council. Due to the fact that until 2010 assessed property values have increased annually since 2001, the City was able to hold the tax rate constant for 10 years. However, operational factors and debt service payments related to needed street and roadways resulted in the City increasing the tax rate from 64.0000 cents per $100 valuation to 67.6945 cents in the fiscal year ending September 30, 2004, and again to 74.7173 cents for fiscal years ended September 30, 2006 – September 30, 2011. The tax rate once again remains unchanged for fiscal year 2012. According to final figures received from the Central Appraisal District, the total assessed property value for 2011-12 of $3.1 billion is a decrease of 1.5 percent, including increased appraisals and new construction. A penny on the tax rate generates approximately $313,232 annually for the City.

The General Fund's largest revenue source is property tax receipts. Reflective of the decrease in appraisal values and no increase in the tax rate, property tax revenues have decreased from their highest level in 2008. In 2004, Rowlett broke the $3.0 million barrier for the first time in sales taxes with the addition of Home Depot and the local beer/wine option. In 2006, an economic development incentive package lured the national headquarters of D.R. Horton resulting in an increase in sales taxes of $3.6 million to $7.5 million although that economic activity declined during the fiscal years ending 2007 - 2010. The 30-year agreement requires rebating 90 percent of the sales taxes paid back to D.R. Horton. Those rebates totaled $1.2 million in the current fiscal year, down almost $.5 million from the previous year. Due to a change in state law, the agreement with D. R. Horton was eliminated on September 1, 2011. As a result, the City adjusted their revenue projections for FY 2012 accordingly.

As for the City's business type activities, the City was cautious with its revenue expectations in the Water and Sewer Fund recognizing that weather plays a big role in ultimately determining earnings as well as the economy for outdoor water uses. For example, the drought in 2006 and 2007, combined with a historic rain event in June 2007 combined to reduce the city's water sales nearly a billion gallons. The 2012 budget includes a rate increase of 8.5 percent from the North Texas Municipal Water District and also projects an increase in consumption. The City of Garland has proposed a 9.5% increase. Overall revenues are projected to increase $.7 million in the Water and Sewer Fund; expenses are also projected to increase approximately the same amount. Revenues in the Drainage Fund are projected to remain flat as there is no projected growth. Rates will remain the same. Revenues in the Refuse Fund will also remain relatively flat, even with a 2.5% increase for its solid waste provider. Expenses in this fund are also expected to decrease $.3 million due to the elimination of a one-time transfer of $.6 million to cash Capital Projects Fund in FY 2011.

The City is committed to taking a cautious approach, analyzing revenues, cutting expenses and judiciously using excess reserves until the economic situation stabilizes.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Department of Financial Services, at City of Rowlett, 4004 Main Street, Rowlett, TX 75088 or check our website at www.Rowlett.com.

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BASIC
FINANCIAL STATEMENTS

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CITY OF ROWLETT, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash, cash equivalents and investments	$ 33,727,748	$ 24,001,751	$ 57,729,499
Receivables (net of allowance for doubtful accounts)	3,442,101	5,022,614	8,464,715
Due from other governments	537,809	5,335	543,144
Inventories	86,016	504,026	590,042
Prepaid and other items	1,259,667	776,157	2,035,824
Capital assets:			
Nondepreciable	31,849,662	7,955,915	39,805,577
Depreciable (net)	70,710,239	83,606,094	154,316,333
Total assets	141,613,242	121,871,892	263,485,134
LIABILITIES			
Accounts payable and accrued liabilities	3,430,087	1,618,349	5,048,436
Accrued interest payable	452,171	204,155	656,326
Customer deposits	-	568,010	568,010
Unearned revenues	9,319,291	-	9,319,291
Noncurrent liabilities:			
Due within one year:			
Retainage payable	134,623	149,900	284,523
Compensated absences	234,873	12,749	247,622
Capital leases payable	406,424	354,425	760,849
Bonds payable	5,655,000	3,660,000	9,315,000
Due in more than one year:			
Compensated absences	2,548,808	138,351	2,687,159
Unfunded pension obligation	1,308,346	97,894	1,406,240
Unfunded OPEB obligation	664,400	75,418	739,818
Capital leases payable	2,102,927	3,194,381	5,297,308
Bonds payable	71,727,425	38,422,028	110,149,453
Total liabilities	97,984,375	48,495,660	146,480,035
NET ASSETS			
Invested in capital assets (net of related debt)	32,374,952	63,268,379	95,643,331
Restricted for:			
Debt service	11,709	3,225,296	3,237,005
Capital projects	3,609,753	-	3,609,753
Public safety	1,075,494	-	1,075,494
Economic development	17,751	-	17,751
Public broadcasting	32,216	-	32,216
Unrestricted	6,506,992	6,882,557	13,389,549
Total net assets	$ 43,628,867	$ 73,376,232	$ 117,005,099

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2011

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 5,043,354	$ 617,922	$ 115,195	$ 700,258
Public safety	20,077,172	1,808,112	641,512	-
Public works	12,320,408	116,950	187,529	1,987,626
Culture and recreation	4,796,472	2,659,906	2,094	-
Development	726,014	565,001	17,473	-
Interest and fiscal charges	3,445,261	-	-	-
Total governmental activities	46,408,681	5,767,891	963,803	2,687,884
Business-type activities:				
Water and sewer	19,715,254	23,592,840	-	351,963
Refuse	3,280,511	4,457,857	-	-
Drainage	1,669,999	1,301,172	-	208,510
Total business-type activities	24,665,764	29,351,869	-	560,473
Total primary government	$ 71,074,445	$ 35,119,760	$ 963,803	$ 3,248,357
		General revenues:		
		Taxes:		
		Property taxes		
		Sales taxes		
		Other		
		Franchise fees		
		Investment earnings		
		Miscellaneous		
		Transfers (net)		
		Total general revenues and transfers		
		Change in net assets		
		Net assets, beginning		
		Net assets, ending		

The accompanying notes are an integral part of this statement.

Net Revenues (Expenses) and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
$(3,609,979)	$ -	$(3,609,979)
(17,627,548)	-	(17,627,548)
(10,028,303)	-	(10,028,303)
(2,134,472)	-	(2,134,472)
(143,540)	-	(143,540)
(3,445,261)	-	(3,445,261)
(36,989,103)	-	(36,989,103)
-	4,229,549	4,229,549
-	1,177,346	1,177,346
-	(160,317)	(160,317)
-	5,246,578	5,246,578
(36,989,103)	5,246,578	(31,742,525)
23,967,737	-	23,967,737
5,767,527	-	5,767,527
124,748	-	124,748
3,214,049	-	3,214,049
165,926	102,658	268,584
171,306	-	171,306
4,999,142	(4,999,142)	-
38,410,435	(4,896,484)	33,513,951
1,421,332	350,094	1,771,426
42,207,535	73,026,138	115,233,673
$ 43,628,867	$ 73,376,232	$ 117,005,099

CITY OF ROWLETT, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2011

	Governmental Fund Types				
	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash, cash equivalents and investments	$ 8,584,407	$ 268,754	$ 22,494,599	$ 1,720,124	$ 33,067,884
Receivables (net of allowance for uncollectibles):					
Taxes	1,285,249	193,858	-	3,884	1,482,991
Accounts	580,056	-	-	-	580,056
Accrued interest	7,881	268	23,687	1,061	32,897
Other	1,222,008	-	-	123,869	1,345,877
Due from other governments	-	-	368,206	169,603	537,809
Due from other funds	93,279	-	-	-	93,279
Inventories	86,016	-	-	-	86,016
Prepaid and other items	73,555	8,455	-	4,350	86,360
Total assets	$ 11,932,451	$ 471,335	$ 22,886,492	$ 2,022,891	$ 37,313,169
LIABILITIES					
Accounts payable	$ 756,753	$ -	$ 1,018,196	$ 222,725	$ 1,997,674
Retainage payable	854	-	-	-	854
Accrued liabilities	1,158,303	-	-	22,730	1,181,033
Deferred revenues	1,072,597	182,602	9,585,797	238,527	11,079,523
Due to other funds	-	-	-	63,405	63,405
Total liabilities	2,988,507	182,602	10,603,993	547,387	14,322,489
FUND BALANCES					
Fund balances:					
Nonspendable:					
Inventories	86,016	-	-	-	86,016
Prepaid items	73,555	8,455	-	4,350	86,360
Restricted for:					
Debt Service	-	280,278	-	1,000	281,278
Capital projects	716,031	-	12,282,499	451,819	13,450,349
Public safety	-	-	-	1,075,494	1,075,494
Economic development	-	-	-	17,751	17,751
Public broadcasting	-	-	-	32,216	32,216
Assigned for:					
Economic development	224,092	-	-	-	224,092
Capital acquisition	1,163,159	-	-	-	1,163,159
Unassigned	6,681,091	-	-	(107,126)	6,573,965
Total fund balances	8,943,944	288,733	12,282,499	1,475,504	22,990,680
Total liabilities and fund balances	$ 11,932,451	$ 471,335	$ 22,886,492	$ 2,022,891	$ 37,313,169

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

RECONCILIATION OF THE STATEMENT OF NET ASSETS OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET

SEPTEMBER 30, 2011

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

Total fund balances per balance sheet - governmental funds	$ 22,990,680
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	102,559,901
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.	1,760,232
Long-term liabilities, including retainage payable, bonds payable, and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds. (Note 2)	(85,401,718)
Unamortized bond discounts, premiums and deferred losses are not uses of funds and, therefore, are not reported in the funds.	1,288,482
The internal service fund is used by management to charge the costs of self-insurance to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.	431,290
Net assets of governmental activities	$ 43,628,867

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Governmental Fund Types				
	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	$ 15,847,989	$ 8,095,918	$ -	$ 294,925	$ 24,238,832
Sales taxes	5,767,527	-	-	-	5,767,527
Other	58,542	-	-	66,206	124,748
Franchise fees	3,211,302	-	-	93,061	3,304,363
License and permits	388,258	-	-	50,076	438,334
Charge for services	2,748,494	-	-	-	2,748,494
Fines and forfeitures	1,216,533	-	-	1,088,324	2,304,857
Intergovernmental	218,950	-	1,332,703	723,883	2,275,536
Interest	51,069	5,883	103,816	5,158	165,926
Miscellaneous	603,090	-	187,529	-	790,619
Total revenues	30,111,754	8,101,801	1,624,048	2,321,633	42,159,236
EXPENDITURES					
Current operating:					
General government	4,152,690	93,731	-	133,841	4,380,262
Public safety	17,939,924	105,009	-	746,995	18,791,928
Public works	2,652,139	-	4,549,901	44,601	7,246,641
Culture and recreation	3,929,002	-	-	2,807	3,931,809
Development	672,775	-	-	-	672,775
Debt service:					
Principal retirement	490,534	5,450,000	-	-	5,940,534
Interest and fiscal charges	47,041	3,323,106	-	-	3,370,147
Capital outlay	1,151,597	-	2,805,642	467,260	4,424,499
Total expenditures	31,035,702	8,971,846	7,355,543	1,395,504	48,758,595
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(923,948)	(870,045)	(5,731,495)	926,129	(6,599,359)
OTHER FINANCING SOURCES (USES)					
Capital lease	1,202,602	-	-	-	1,202,602
Transfers from other funds	2,109,193	924,424	3,412,484	-	6,446,101
Transfers to other funds	(1,503,365)	-	-	(454,925)	(1,958,290)
Total fund balances	1,808,430	924,424	3,412,484	(454,925)	5,690,413
NET CHANGE IN FUND BALANCES	884,482	54,379	(2,319,011)	471,204	(908,946)
FUND BALANCES, BEGINNING	8,059,462	234,354	14,601,510	1,004,300	23,899,626
FUND BALANCES, ENDING	$ 8,943,944	$ 288,733	$ 12,282,499	$ 1,475,504	$ 22,990,680

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

FOR YEAR ENDED SEPTEMBER 30, 2011

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

Net change in fund balances - total governmental funds.	$(908,946)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation, ($7,139,759), exceeds capital outlay, $4,692,041, and capital contributions, $496,827, in the current period. (Note 2)	(1,950,891)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. In the governmental financial statements, these revenues are referred to as deferred revenues.	170,998
issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment and refunding reduces long-term liabilities in the statement of net assets. (Note 2)	4,737,931
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This includes accrued interest payable, $8,053, amortization of bond discounts/premiums and deferred losses, $7,513.	15,566
Some expenses reported in the funds are capitalized and amortized in the statement of activities. This includes bond issuance costs.	(90,680)
Some expenses not reported in the statements are required to be expensed in the statement of activities. This includes the loss on disposal of assets, compensated absences, the unfunded pension obligation, and the unfunded OPEB obligation.	(983,936)
The internal service fund is used by management to charge the costs for self-insurance to the various funds. The net expenses of certain activities of the internal service fund is reported within the governmental activities.	431,290
Change in net assets of governmental activities	$ 1,421,332

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2011

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
ASSETS					
Current assets:					
Cash, cash equivalents and investments	$ 2,284,535	$ 226,889	$ 1,117,827	$ 3,629,251	$ 518,709
Restricted cash, cash equivalents and investments:					
Revenue bond covenant accounts	3,225,296	-	-	3,225,296	-
Medical claims	-	-	-	-	141,155
Receivables (net of allowance for uncollectibles):					
Accounts	3,855,549	589,244	161,571	4,606,364	-
Accrued interest	23,126	422	1,333	24,881	280
Other	267,389	1,591	-	268,980	-
Due from other governments	3,364	1,615	356	5,335	-
Inventories	504,026	-	-	504,026	-
Prepaid and other items	724,658	-	51,499	776,157	52,400
Total current assets	10,887,943	819,761	1,332,586	13,040,290	712,544
Noncurrent assets:					
Restricted cash, cash equivalents and investments:					
Revenue bond construction funds	16,745,256	-	401,948	17,147,204	-
Receivables (net of allowance for uncollectibles):					
Notes receivable	122,389	-	-	122,389	-
Capital assets:					
Land	741,645	-	-	741,645	-
Buildings	1,041,640	-	59,178	1,100,818	-
Systems	101,219,380	194,768	37,436,789	138,850,937	-
Machinery and equipment	6,780,160	23,365	298,908	7,102,433	-
Construction in progress	6,367,623	-	846,647	7,214,270	-
Less accumulated depreciation	(51,303,242)	(148,412)	(11,996,440)	(63,448,094)	-
Total capital assets	64,847,206	69,721	26,645,082	91,562,009	-
Total noncurrent assets	81,714,851	69,721	27,047,030	108,831,602	-
Total assets	92,602,794	889,482	28,379,616	121,871,892	712,544
LIABILITIES					
Current liabilities					
Accounts payable	873,763	493,576	3,687	1,371,026	251,380
Accrued liabilities	102,234	-	4,457	106,691	-
Due to other funds	-	-	-	-	29,874
Accrued interest payable	36,400	-	24,466	60,866	-
Customer deposits	568,010	-	-	568,010	-
Compensated absences	11,665	-	1,084	12,749	-
Capital lease payable	354,425	-	-	354,425	-
Bonds payable	3,470,000	-	190,000	3,660,000	-
Total current liabilitie[s]	5,416,497	493,576	223,694	6,133,767	281,254
Current liabilities payable from restricted assets:					
Accounts payable	139,102	-	1,530	140,632	-
Accrued interest payable	143,289	-	-	143,289	-
Retainage payable	147,900	-	2,000	149,900	-
Total current liabilities payable from restricted assets	430,291	-	3,530	433,821	-
Total current liabilitie[s]	5,846,788	493,576	227,224	6,567,588	281,254

(continued)

CITY OF ROWLETT, TEXAS

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
(Continued)
SEPTEMBER 30, 2011

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
LIABILITIES (Continued)					
Noncurrent liabilities:					
Compensated absences	$ 126,585	$ -	$ 11,766	$ 138,351	$ -
Unfunded pension obligation	92,298	-	5,596	97,894	-
Unfunded OPEB obligation	70,894	-	4,524	75,418	-
Capital lease payable	3,194,381	-	-	3,194,381	-
Bonds payable	34,566,178	-	3,855,850	38,422,028	-
Total noncurrent liabilities	38,050,336	-	3,877,736	41,928,072	-
Total liabilities	43,897,124	493,576	4,104,960	48,495,660	281,254
NET ASSETS					
Invested in capital assets (net of related debt)	40,007,478	69,721	23,191,180	63,268,379	-
Restricted for:					
Debt service	3,225,296	-	-	3,225,296	-
Unrestricted	5,472,896	326,185	1,083,476	6,882,557	431,290
Total net assets	$ 48,705,670	$ 395,906	$ 24,274,656	$ 73,376,232	$ 431,290

The accompanying notes are an integral part of this statement.

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CITY OF ROWLETT, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
OPERATING REVENUES					
Charges for services	$ 23,579,081	$ 4,455,872	$ 1,301,172	$ 29,336,125	$ 2,995,734
Miscellaneous	13,759	1,985	-	15,744	-
Total operating revenues	23,592,840	4,457,857	1,301,172	29,351,869	2,995,734
OPERATING EXPENSES					
Personnel services	1,761,296	6,915	89,981	1,858,192	-
Water supply	4,527,652	-	-	4,527,652	-
Wastewater treatment	2,981,227	-	-	2,981,227	-
Contractual services	424,792	-	49,397	474,189	3,074,943
Maintenance, repairs and supplies	855,145	-	67,138	922,283	-
Utilities	471,073	-	-	471,073	-
Legal and professional	10,094	1,649	3,995	15,738	-
Refuse collection	-	3,022,610	-	3,022,610	-
Depreciation	4,346,650	21,813	997,949	5,366,412	-
Intragovernmental charges	2,036,322	227,524	253,877	2,517,723	-
Miscellaneous	39,699	-	3	39,702	3,632
System improvements	316,200	-	14,125	330,325	-
Total operating expenses	17,770,150	3,280,511	1,476,465	22,527,126	3,078,575
OPERATING INCOME (LOSS)	5,822,690	1,177,346	(175,293)	6,824,743	(82,841)
NONOPERATING REVENUES (EXPENSES)					
Investment income	94,918	1,207	6,533	102,658	2,800
Interest and fiscal charges	(1,945,104)	-	(193,534)	(2,138,638)	-
Total nonoperating revenues (expenses)	(1,850,186)	1,207	(187,001)	(2,035,980)	2,800
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	3,972,504	1,178,553	(362,294)	4,788,763	(80,041)
Capital contributions	351,963	-	208,510	560,473	-
Transfers in	150,000	-	-	150,000	511,331
Transfers out	(3,459,193)	(1,589,949)	(100,000)	(5,149,142)	-
CHANGE IN NET ASSETS	1,015,274	(411,396)	(253,784)	350,094	431,290
TOTAL NET ASSETS, BEGINNING	47,690,396	807,302	24,528,440	73,026,138	-
TOTAL NET ASSETS, ENDING	$ 48,705,670	$ 395,906	$ 24,274,656	$ 73,376,232	$ 431,290

The accompanying notes are an integral part of this statement.

CITY OF ROWLETT, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers and users	$ 23,116,889	$ 4,473,059	$ 1,304,949	$ 28,894,897	$ 2,943,334
Cash paid to employees for services	(1,703,334)	(6,915)	(82,839)		-
Cash paid for goods and services	(12,253,220)	(3,286,198)	(394,721)	(15,934,139)	(2,797,321)
Net cash provided by operating activities	9,160,335	1,179,946	827,389	11,167,670	146,013
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers from other funds	150,000	-	-	150,000	511,331
Transfers to other funds	(3,459,193)	(1,589,949)	(100,000)	(5,149,142)	-
Net cash provided (used) by operating activities	(3,309,193)	(1,589,949)	(100,000)	(4,999,142)	511,331
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on capital debt	(3,689,548)	-	(180,000)	(3,869,548)	-
Interest and fiscal charges paid on capital debt	(1,665,147)	-	(195,299)	(1,860,446)	-
Proceeds from capital debt	389,825	-	-	389,825	-
Capital contributions	35,921	-	-	35,921	-
Acquisition and construction of capital assets	(3,900,715)	-	(150,351)	(4,051,066)	-
Net cash used by capital and related financing activities	(8,829,664)	-	(525,650)	(9,355,314)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	94,918	1,207	6,823	102,948	2,520
Net cash provided by investing activities	94,918	1,207	6,823	102,948	2,520
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,883,604)	(408,796)	208,562	(3,083,838)	659,864
CASH AND CASH EQUIVALENTS, BEGINNING	25,175,229	635,685	1,311,213	27,122,127	-
CASH AND CASH EQUIVALENTS, ENDING	$ 22,291,625	$ 226,889	$ 1,519,775	$ 24,038,289	$ 659,864

(continued)

CITY OF ROWLETT, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS
(Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED) FOR OPERATING ACTIVITIES					
Operating income (loss)	$ 5,822,690	$ 1,177,346	$(175,293)	$ 6,824,743	$(82,841)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	4,346,650	21,813	997,949	5,366,412	-
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(549,107)	10,257	2,606	(536,244)	-
(Increase) decrease in other receivables	100,880	4,945	1,171	106,996	-
(Increase) decrease in prepaid expenses and other assets	3,882	-	-	3,882	(52,400)
(Increase) decrease in due from other funds	-	-	-	-	-
(Increase) decrease in inventory	(31,606)	-	-	(31,606)	-
(Increase) decrease in accounts payable and accrued liabilities	(618,267)	(34,415)	(6,186)	(658,868)	251,380
(Increase) decrease in customer/escrow deposits	27,251	-	-	27,251	-
(Increase) decrease in accrued compensated absences	(4,348)	-	7,313	2,965	-
(Increase) decrease in due to other funds	-	-	-	-	29,874
(Increase) decrease in accrued pension and OPEB obligation	62,310	-	(171)	62,139	-
Total adjustments	3,337,645	2,600	1,002,682	4,342,927	228,854
Net cash provided by operating activities	$ 9,160,335	$ 1,179,946	$ 827,389	$ 11,167,670	$ 146,013
NONCASH CAPITAL ACTIVITIES					
Contributions of capital assets from developers	$ 316,042	$ -	$ 208,510	$ 524,552	$ -
Total noncash capital activities	$ 316,042	$ -	$ 208,510	$ 524,552	$ -

The accompanying notes are an integral part of this statement.

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Rowlett, Texas ("City") is a municipal corporation governed by an elected mayor and six-member council. It was incorporated on March 1, 1952, under the provisions of Chapter 11, Title 28, Texas Revised Civil Statutes of 1925. On January 19, 1980, the City adopted a charter making it a home rule city operating under a Council-Manager form of government. The City provides such services as are authorized by its charter to advance the welfare, health, comfort, safety and convenience of its inhabitants. The City's services include public safety, streets and transportation, water and wastewater, solid waste collection and disposal, environmental health and leisure services.

The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and Enterprise Funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance. The more significant accounting and reporting policies and practices used by the City are described below.

The City's basic financial statements include all organizations and activities determined to be part of the City's reporting entity. There are no component units of the City as defined by generally accepted accounting principles.

B. Financial Statement Presentation

The basic financial statements are prepared in conformity with GASB Statement No. 34, as amended, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net assets and statement of activities. The City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus for the government funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

GASB Statement No. 34 also requires supplementary information such as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the adopted and modified General Fund budget with actual results.

(continued)

B. Financial Statement Presentation (Continued)

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped by type in the financial statements.

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, 2) grants and contributions that are restricted to meeting the operational requirements of a particular function or segment and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The nonmajor funds are combined in a separate column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

GASB Statement No. 34 also permits the City to report individual nonmajor funds if officials believe the fund is particularly important to the financial statement's readers. No funds have been reported individually for this reason.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus/Basis of Accounting

Government fund level financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the obligation has matured and is due and payable shortly after year-end as required by GASB Interpretation No. 6.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered deferred revenue.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Business-type activities and all proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, refuse, and municipal drainage funds are charges to customers for sales and services. Operating expenses for the Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The City reports the following major governmental funds:

The ***General Fund*** is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The ***Capital Projects Fund*** accounts for the financing and acquisition of right of way and construction of streets and alleys, buildings, land acquisition and park improvements. Funds are provided primarily through bond sales, impact fees and interest earnings.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Measurement Focus/Basis of Accounting (Continued)

The City reports the following major proprietary funds:

The ***Water and Sewer Fund*** accounts for the activities of the enterprise. The enterprise operates the water distribution and pump stations, and the sewage collection system and lift stations.

The ***Refuse Fund*** accounts for the activities of the City's residential and commercial trash collection service.

The ***Drainage Fund*** accounts for the activities of the City's drainage maintenance operations.

Additionally, the City reports the following fund types:

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for particular purposes.

The ***Internal Service Fund*** is used to account for the City's self-insurance activities provided to other departments or funds of the City on a cost reimbursement basis.

E. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Cash in all funds, excluding the City's payroll account and certain escrow accounts, is combined into one bank account in order to maximize investment opportunities. Although individual funds may experience temporary overdraft liabilities, a positive balance is maintained in combined cash. Investment income resulting from this pooling is allocated to the respective funds based on the sources of the funds invested.

Investments are carried at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City considers a quoted market price at September 30, 2011, to be the fair value of investments.

For the purpose of the Statement of Cash Flows, cash and cash equivalents include cash on hand, demand deposits, escrow cash with fiscal agent and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Allowances are calculated based on historical performance and can differ between receivable types. Accounts without the backing of liens or contractual agreements exceeding 365 days are typically written off.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. <u>Assets, Liabilities, and Net Assets or Equity</u> (Continued)

2. Receivables and Payables (Continued)

Property taxes are levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due by January 31 following the October 1 levy date and are considered delinquent after January 31 of each year.

3. Inventories and Prepaid Items

Inventories, which are expended as they are consumed, are recorded using the average cost method and are stated at cost. They are valued at the lower of moving average (i.e., perpetual inventory) cost or market. Unit prices are adjusted as new inventory is added, thus the moving average cost closely represents the cost of goods sold. Other inventories are stated at the lower of cost (first-in, first-out method) or market.

Prepaid items are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year. A reserve for prepaid items is recognized in the governmental funds in the fund level financial statements to signify that a portion of fund balance is not available for other subsequent expenditures. At the government-wide level, unamortized bond issue costs are treated as a prepaid item.

4. Interfund Transactions and Receivables and Payables

Short-term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds.

5. Restricted Assets

Assets, consisting of cash and short-term investments, have been set aside on the balance sheet because they represent funds with restricted purposes.

In the proprietary funds,, restricted assets are segregated to reflect resources accumulated for debt service, construction funds, or other legal requirements. Debt service amounts are restricted for the current year's requirements and also for future years' requirements as required by bond covenants. Construction Funds represent resources set aside for construction projects of the Water and Sewer and Drainage Funds.

6. Capital Assets

Capital assets, which include property, plant, equipment and public domain (infrastructure) assets (e.g. roads, water and sewer lines, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of three years. Public infrastructure is capitalized at $100,000 and an estimated useful life in excess of five years. Contributed assets are recorded at estimated fair market value at the time received. Assets acquired by lease financing are capitalized over the term of the lease regardless of the cost of individual items. Capital costs that do not materially add to the value of the asset, extend its useful life, or do not otherwise meet the government's capitalization threshold are not capitalized.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

6. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total amount of interest capitalized for the current fiscal year was $262,049.

Capital assets of the primary government are depreciated using the straight line with half-year convention method. The estimated useful lives under the policy are as follows:

Buildings, other improvements	20 - 40 years
Alleys, drainage systems, and water and sewer system	25 years
Equipment	3 - 20 years
Streets	10 - 20 years

7. Compensated Absences

City employees earn vacation and sick leave based on length of service. Nonexempt employees are eligible to accumulate compensation time at one and one-half times the hourly rate of pay. At termination, employees are reimbursed for accumulated vacation and compensatory time. Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements and are typically liquidated with expendable resources in the General Fund.

8. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Long-term obligations such as the unfunded net pension obligation and the unfunded net OPEB Obligation are typically liquidated with expendable resources in the General Fund.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities, and Net Assets or Equity (Continued)

9. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. The City does not utilize encumbrance accounting – under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation. Accordingly, the total amount of encumbrances at year-end is not determinable. Since the City intends to honor such commitments, the subsequent year's appropriations will provide authority to complete these transactions. Under the City's budgetary process, appropriations lapse at fiscal year-end, except for capital improvements or contracts in which the City issued a purchase order prior to the end of the year. Encumbrances do not constitute expenditures or liabilities.

10. Fund Balance Classification and Net Assets

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent has been delegated to the Chief Financial Officer and/or the Director of Financial Services.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

At the government–wide level, 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 balance of any debt used for the acquisition, construction or improvements of those assets, net of debt related to any unspent proceeds.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains the "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $(85,401,718) difference are as follows:

Bonds and certificates of obligation payable	$(77,550,000)
Capital leases	(2,509,351)
Compensated absences	(2,783,681)
Unfunded pension obligation	(1,308,346)
Unfunded OPEB obligation	(664,400)
Accrued interest	(452,171)
Retainage payable	(133,769)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets of governmental activities	$(85,401,718)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense." The details of the $(1,950,891) difference are as follows:

Capital outlay	$ 4,692,041
Depreciation expense	(7,139,759)
Capital contributions	496,827
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes net net assets of governmental activities	$(1,950,891)

Another element of that reconciliation states, "Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets." Repayment of bond principal is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

(continued)

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)

Debt issued or incurred:	
Capital lease	$(1,202,602)
Repayments:	
General obligation debt	3,080,000
Certificates of obligation	2,370,000
Notes and capital leases	490,533
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	$ 4,737,931

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City Council follows these procedures in establishing the budgets reflected in the financial statements:

- Approximately 60 – 90 days prior to October 1 of each fiscal year, the City Manager submits a proposed budget to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings and budget work sessions are conducted to obtain taxpayer comments.
- Typically, the City Council enacts the budget by ordinance at its first meeting in September. This allows tax statements to be prepared and mailed in a timely fashion.
- Annual budgets are legally adopted for the General, Special Revenue, Debt Service and Enterprise Funds. Budgets are prepared on a modified accrual basis for the General, Special Revenue and Debt Service Funds. Enterprise and Internal Service Fund budgets are prepared on an accrual basis, except that capital outlays (exclusive of water and sewer capital projects) and principal payments on debt are budgeted as expenses and depreciation expense is not budgeted. Budgets for the Capital Projects Funds are normally established pursuant to the term of the related bond indentures, that is, on a project basis.
- The level of control is at the fund level. The City Manager has the authority to approve the transfer of budgeted amounts between accounts within any department. Revisions that alter the total expenditures of any fund must be approved by the City Council. The City Council has the power to revise any appropriations deemed to be in the best interest of the City.

(continued)

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. <u>Budgetary Information</u> (Continued)

The Budgetary Comparison Schedule, included in the required supplementary information presents a comparison of budgetary data to actual results of operations for the General Fund in which an annual operating budget was legally adopted. This schedule utilizes the same basis of accounting for both budgetary purposes and actual results.

Budgetary data for the Capital Projects Funds have not been presented in the accompanying required supplemental information. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in a multi-year Capital Improvements Plan.

B. <u>Excess of Expenditures Over Appropriations</u>

For the year ended September 30, 2011, expenditures exceeded appropriations in the Impact Fees Fund by $14,528, Police Seizures Fund by $13,122, Traffic Safety Fund by $21,525, Grant Fund by $260,963, and in the P.E.G. Fund by $5,090. Revenues for the Impact Fees Fund come from private developers which are used on public improvements within designated zones in the City. Resources for Police Seizure Fund come from federal and state asset forfeitures which govern the purposes for which they may be spent. The Traffic Safety Fund generates fines which, by agreement, are paid to the contractor who manages the red light cameras. Any surpluses are divided between the State of Texas and the City of Rowlett 50/50. The Grant Fund accounts for revenues from other governments, including the federal Community Development Block Grant ("CDBG") program. Dollars provided in previous years for capital projects carryover automatically by city policy. Resources in the P.E.G. Fund are generated from cable subscribers under state guidelines which permit the City to spend for its cable channel RTN16. The budgets were not specifically amended for the fiscal year ended September 30, 2011, to address the over expenditures.

C. <u>Deficit Fund Equity</u>

The Grant Special Revenue Fund had a deficit fund balance of $106,286 as of September 30, 2011. The fund incurred expenditures under a grant that were not reimbursed in a timely manner under the modified accrual basis of accounting to be included in revenue.

IV. DEPOSITS AND INVESTMENTS

The City has adopted Investment Policies, which are in accordance with the laws of the State of Texas, where applicable, specifically the Public Funds Investment Act ("PFIA"). The policies identify authorized investments and investment terms, collateral requirements, safekeeping requirements for collateral and investments, and certain investment practices. Authorized investments include obligations of the federal government or its agencies and instrumentalities, repurchase agreements, state and local investment pools, SEC regulated money market mutual funds, collateralized or insured certificates of deposit, and prime commercial paper.

State statutes require that all deposits in the financial institutions be fully collateralized by U. S. government obligations or obligations of the state of Texas and its agencies that have a market value of not less than the principal amount of the deposits. The City's demand deposits were fully collateralized at September 30, 2011, with collateral required by the state statutes. At year-end, the City's deposit balance was fully covered by collateral held by the City's depository bank in the City's name or by FDIC insurance.

(continued)

IV. DEPOSITS AND INVESTMENTS (Continued)

The City's investments carried at fair value as of September 30, 2011, are:

Investment Type	Fair Value	Maturity (Years)*	Rating
Commercial paper	$ 4,399,309	0.07	A-1 to A-1+
U. S. Agencies	8,176,312	0.94	AAA
U. S. Treasuries	11,832,354	1.32	TSY
Texas Local Government Investment Pools			
TexPool	32,451,038	0.12	AAAm
	$ 56,859,013	2.38	

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City's investment policy states that the overall weighted average duration of principal return for the entire portfolio shall be less than two (2) years. By policy, the City will not directly invest in securities maturing more than five years from the date of purchase.

Credit Risk. The City's investment policy, in conjunction with state law, specifies the type of credit rating of all authorized investments. The City's investments in U. S. Agency securities (Commercial Paper, FHLB, FNMA, FHLMC, and US TSY) are individually rated by Standard & Poor's and by Moody's Investors Service (see table above). As of September 30, 2011, investments in the Texas Local Government Pool ("TexPool") carried a credit rating of AAAm by Standard & Poor's. *US Treasuries are backed by the full *faith and credit of the US Government.*

Concentration of Credit Risk. With the exception of U. S. Treasury securities and State Local Government Pools, the City's investment policy limits the amount that may be invested in any one issuer to 40% of the total investment portfolio. The City's investment policy also has stricter restrictions for commercial paper, CD's, repurchase agreements, mutual funds and other investments. As of September 30, 2011, 42.93% or more of the City's total investments are in the following: Federal Home Loan Banks (3.48%), Fannie Mae (8.58%). Freddie Mac (2.31%), US Treasury Notes (20.81%), and Commercial paper (7.74%) on a fair value basis.

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy follows state statutes, which require that all deposits in financial institutions be fully collateralized or insured. The City was not exposed to any custodial credit risk at year-end.

Custodial Credit Risk – Investments. For investments, custodial credit risk is the risk that in the event of the failure of a counter party, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all investments held by outside parties for safekeeping be held in the name of the City. The City was not exposed to any custodial credit risk at year-end.

V. OTHER INFORMATION

A. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. The property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established at 100% of estimated market value and certified by the Board of Equalization. The assessed value for the roll of January 1, 2010, upon which the fiscal 2011-year levy was based, was $3,220,265,191.

(continued)

V. OTHER INFORMATION (Continued)

A. **Property Taxes** (Continued)

The City is permitted by Article XI, Section 5 of the State of Texas Constitution to levy taxes up to $2.50 per $100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. However, on May 3, 2003, the citizens of Rowlett approved modifications to the City's Home Rule Charter, including a provision to cap the levy of property taxes at $1.25 per $100 of assessed valuation. The tax rate for the year ended September 30, 2011, was $.747173 per $100, of which $0.494673 was allocated for general government and $0.2525 was allocated for the payment of principal and interest on general obligation debt. Taxes are due October 1. Full payment can be made prior to the next January 31 to avoid penalty and interest charges. Tax collections, including past delinquencies, for the year ended September 30, 2011, were 99.03% of the tax levy.

In Texas, countywide central appraisal districts are required to assess all property within the appraisal district on the basis of 100% of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every four years; however, the City may, at its own expense, require annual reviews of appraised values. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8% above the tax rate of the previous year.

This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district. As of September 1, 1997, the City contracted with Dallas County to bill and collect the City's property taxes.

B. **Receivables**

Receivables as of the year-end for the City's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Water and Sewer	Refuse	Drainage	Internal Service	Total
Interest	$ 7,881	$ 268	$ 23,687	$ 1,061	$ 23,126	$ 422	$ 1,333	$ 280	$ 58,058
Court	98,538	-	-	1,260	-	-	-	-	99,798
Ambulance	541,619	-	-	-	-	-	-	-	541,619
Lot mowing	460,208	-	-	-	-	-	-	-	460,208
Other	66,866	-	-	-	375,235	1,599	-	-	443,700
Sales tax	898,562	-	-	-	-	-	-	-	898,562
Hotel/motel tax	-	-	-	3,884	-	-	-	-	3,884
Property taxes	437,496	217,439	-	-	-	-	-	-	654,935
Customer accounts	-	-	-	-	4,044,606	627,193	171,206	-	4,843,005
Other accounts	44,280	-	-	-	16,428	-	-	-	60,708
Franchise fees	1,084,773	-	-	46,619	-	-	-	-	1,131,392
911 fees	31,116	-	-	-	-	-	-	-	31,116
Red light camera	-	-	-	222,526	-	-	-	-	222,526
Gross receivables	3,671,339	217,707	23,687	275,350	4,459,395	629,214	172,539	280	9,449,511
Less: allowance for uncollectibles	(576,145)	(23,581)	-	(146,536)	(190,942)	(37,957)	(9,635)	-	(984,796)
Net total receivables	$ 3,095,194	$ 194,126	$ 23,687	$ 128,814	$ 4,268,453	$ 591,257	$ 162,904	$ 280	$ 8,464,715

(continued)

V. OTHER INFORMATION (Continued)

B. Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

Deferred Revenue	Unavailable	Unearned
Delinquent property tax receivable	$ 547,690	$ -
Ambulance	99,987	
Mowing liens	387,393	
Adjudicated fines not yet collected	11,207	-
Intergovernmental	476,894	9,271,460
Franchise fees	135,776	
Other	101,285	47,831
Total deferred/unearned for governmental funds	$ 1,760,232	$ 9,319,291

C. Capital Assets

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 25,896,952	$ 1,539,998	$ -	$ 27,436,950
Construction in progress	3,492,189	1,348,585	(428,062)	4,412,712
Total capital assets, not being depreciated	29,389,141	2,888,583	(428,062)	31,849,662
Capital assets being depreciated:				
Buildings	22,847,026	36,351	-	22,883,377
Improvements other than buildings	21,790,539	101,589	-	21,892,128
Machinery and equipment	12,208,307	1,330,170	(668,528)	12,869,949
Infrastructure	102,632,519	581,379	-	103,213,898
Total capital assets being depreciated	159,478,391	2,049,489	(668,528)	160,859,352
Less accumulated depreciation:				
Buildings	(5,517,547)	(595,590)	-	(6,113,137)
Improvements other than buildings	(18,181,450)	(533,262)	-	(18,714,712)
Machinery and equipment	(7,944,743)	(948,378)	585,764	(8,307,357)
Infrastructure	(51,951,378)	(5,062,529)	-	(57,013,907)
Total accumulated deprecation	(83,595,118)	(7,139,759)	585,764	(90,149,113)
Total capital assets being depreciated, net	75,883,273	(5,090,270)	(82,764)	70,710,239
Governmental activities capital assets, net	$ 105,272,414	$(2,201,687)	$(510,826)	$ 102,559,901

(continued)

V. OTHER INFORMATION (Continued)

C. Capital Assets (Continued)

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 510,688	$ 230,957	$ -	$ 741,645
Construction in progress	4,612,144	3,302,452	(700,326)	7,214,270
Total capital assets, not being depreciated	5,122,832	3,533,409	(700,326)	7,955,915
Capital assets being depreciated:				
Buildings	1,100,818	-	-	1,100,818
Improvements other than buildings	263,429	-	-	263,429
Machinery and equipment	6,900,043	478,883	(276,493)	7,102,433
Infrastructure	137,702,244	885,264	-	138,587,508
Total capital assets being depreciated	145,966,534	1,364,147	(276,493)	147,054,188
Less accumulated depreciation:				
Buildings	(343,145)	(28,825)	-	(371,970)
Improvements other than buildings	(177,545)	(20,891)	-	(198,436)
Machinery and equipment	(3,279,987)	(452,609)	276,493	(3,456,103)
Infrastructure	(54,557,498)	(4,864,087)	-	(59,421,585)
Total accumulated deprecation	(58,358,175)	(5,366,412)	276,493	(63,448,094)
Total capital assets being depreciated, net	87,608,359	(4,002,265)	-	83,606,094
Business-type activities capital assets, net	$ 92,731,191	$(468,856)	$(700,326)	$ 91,562,009

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

Governmental activities	
General government	$ 281,474
Public safety	779,240
Public works	5,278,232
Culture and recreation	786,052
Development	14,761
Total depreciation expense - governmental activities	$ 7,139,759
Business-type activities	
Water and sewer	$ 4,346,650
Refuse	21,813
Drainage	997,949
Total depreciation expense - business-type activities	$ 5,366,412

(continued)

V. OTHER INFORMATION (Continued)

D. Employees' Retirement System

Plan Description

The City provides pension benefits for all of its fulltime employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used the System. This report may be obtained by writing to TMRS, P. O. Box 149153, Austin, Texas 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Play Year 2010	Plan Year 2011
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating Transfers	100% repeating Transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable rate for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity increases.

The City contributes to the TMRS plan at an actuarial determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and the net pension obligation/(asset) are as follows:

Annual required contribution	$ 3,210,666
Interest on pension obligation	70,496
Adjustment to the ARC	(58,432)
Annual pension cost	3,222,730
Contributions made	(2,756,435)
Increase in net pension obligation	466,295
Net pension obligation, beginning of year	939,945
Net pension obligation, end of year	$ 1,406,240

(continued)

V. OTHER INFORMATION (Continued)

D. Employees' Retirement System (Continued)

Contributions (Continued)

Year Ending	Pension Cost (APC)	Contribution Made	% of APC Contributed	Pension Obligation	Annual Required Contribution Rate
09/30/09	$ 2,880,006	$ 2,477,998	86.04%	$ 402,008	16.11%
09/30/10	3,176,570	2,638,633	83.07%	939,945	17.00%
09/30/11	3,222,730	2,756,434	85.53%	1,406,241	17.30%

The required contributions rates for fiscal year 2011 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

Actuarial Valuation Date	12/31/08	12/31/09	12/31/10-prior to restructuring	12/31/10 restructured
Actuarial cost method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization period	29 years closed period	28 years closed period	27.2 years closed period	27.2 years closed period
Amortization period for new gains/losses	30 years	30 years	30 years	30 years
Asset valuation method	Amortized cost	10-year smoothed market	10-year smoothed market	10-year smoothed market
Actuarial assumptions				
Investment rate of return	7.5%	7.5%	7.5%	7.0%
Projected salary increases	Varies by age and service	Varies by age and service	Varies by age and service	Varies by age and service
Inflation	3.0%	3.0%	3.0%	3.0%
Cost-of-living adjustment	2.1%	2.1%	2.1%	2.1%

Funded Status and Funding Progress

In June 2011, SB 350 was enacted by the Texas Legislature, resulting in a restructure of the TMRS funds. This legislation provided for the actuarial valuation to be completed, as if restructuring had occurred on December 31, 2010. In addition, the actuarial assumptions were updated for the new fund structure, based on an actuarial experience study that was adopted by the TMRS Board at their May 2011 meeting (the review compared actual to expected experience for the four-year period of January 1, 2006 through December 31, 2009). For a complete description of the combined impact of the legislation and new actuarial assumptions, including the effects on TMRS city rates and funding ratios, please see the December 2010 TMRS Comprehensive Annual Financial Report (CAFR).

(continued)

V. OTHER INFORMATION (Continued)

D. Employees' Retirement System (Continued)

Contributions (Continued)

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

Actuarial date	12/31/08	12/31/09	12/31/10 (1)	12/31/10 (2)
Actuarial value of assets	$ 42,662,962	$ 46,369,748	$ 50,557,269	$ 61,940,838
Actuarial accrued liability (AAL)	61,211,355	64,957,600	70,409,555	78,870,069
Percent funded	69.7%	71.4%	71.8%	78.5%
Unfunded (overfunded) actuarial accrued liability (UAAL)	18,548,393	18,587,852	19,852,286	16,929,231
Annual covered payroll	19,796,538	19,167,685	18,736,655	18,736,655
UAAL as a percent of covered payroll	93.7%	97.0%	106.0%	90.4%

(1) Actuarial valuation performed under the original fund structure

(2) Actuarial valuation performed under the new fund structure

E. Long-term Debt

A summary of long-term debt transactions, including the current portion, for the year ended September 30, 2011, is as follows:

	Balance October 1, 2010	Issued or Incurred	Retired or Refunded	Balance September 30, 2011	Due Within One Year
Governmental activities					
General obligation bonds	$ 37,590,000	$ -	$ 3,080,000	$ 34,510,000	$ 3,495,000
Combined tax and surplus revenue certificates of obligation	45,410,000	-	2,370,000	43,040,000	2,160,000
Capital leases	1,797,282	1,202,602	490,533	2,509,351	406,424
Compensated absences	2,730,868	117,206	64,393	2,783,681	234,873
Unfunded pension obligation	875,221	2,997,139	2,564,014	1,308,346	-
Unfunded OPEB obligation	452,247	329,983	117,830	664,400	-
Retainage payable	609,545	134,623	609,545	134,623	134,623
Governmental activities long-term debt	$ 89,465,163	$ 4,781,553	$ 9,296,315	$ 84,950,401	$ 6,430,920
Business-type activities					
Water and sewer revenue bonds	$ 41,340,000	$ -	$ 3,345,000	$ 37,995,000	$ 3,470,000
Combination tax and surplus revenue certificates of obligation	4,190,000	-	180,000	4,010,000	190,000
Capital leases	3,503,499	389,825	344,518	3,548,806	354,425
Retainage Payable	564,826	149,900	564,826	149,900	149,900
Compensated absences	151,211	63,457	63,568	151,100	12,749
Unfunded pension obligation	64,724	225,591	192,421	97,894	-
Unfunded OPEB obligation	49,092	36,665	10,339	75,418	-
Business-type activities long-term debt	$ 49,863,352	$ 865,438	$ 4,700,672	$ 46,028,118	$ 4,177,074

(continued)

V. OTHER INFORMATION (Continued)

E. Long-term Debt (Continued)

For the governmental activities, the net pension obligation and the other postemployment benefit obligation are generally liquidated by the General Fund.

Long-term debt for governmental activities at September 30, 2011, includes the following individual issues (not including unamortized premiums of $678,042, unamortized discounts of $52,920, unamortized bond issuance costs of $1,120,907 and deferred loss of $792,697):

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Governmental activities				
General obligation bonds:				
1997A various purpose	6.36 var	08/15/26	$ 5,355,000	$ 215,000
2001 various purpose	4.25	02/15/11	-	-
2002 various purpose	3.75	02/15/11	-	-
2003 Revenue and improvements	2.15-4.50	02/15/14	1,670,000	900,000
2003A various purpose	2.25-5.00	02/15/23	2,740,000	175,000
2004 Revenue and improvements	3.50-4.60	02/15/18	2,775,000	345,000
2004A various purpose	2.00-4.80	02/15/24	4,435,000	260,000
2005 Refunding	3.00-4.50	02/15/20	5,785,000	630,000
2010 Refunding	2.00-3.00	02/15/22	10,645,000	920,000
2010A Refunding (taxable)	1.57-5.71	08/15/28	1,105,000	50,000
			34,510,000	3,495,000
Combination tax and revenue certificates of obligation:				
2001 various purpose	4.25	02/15/11	-	-
2002 various purpose	3.75	02/15/11	-	-
2003 various purpose	2.00-5.00	02/15/23	5,010,000	325,000
2004 various purpose	2.00-4.80	02/15/29	3,380,000	165,000
2005 various purpose	3.00-4.50	02/15/25	17,185,000	930,000
2006 various purpose	4.00-5.125	02/15/31	17,465,000	740,000
			43,040,000	2,160,000
Total government activities long-term bonded debt			77,550,000	5,655,000
Less: deferred amounts:				
On refunding			(792,697)	-
For issuance premiums and discounts			625,122	-
Net government activities long-term bonded debt			$ 77,382,425	$ 5,655,000

(continued)

E. **Long-term Debt** (Continued)

Long-term debt for business activities at September 30, 2011, includes the following individual issues (not including unamortized premiums of $452,472, unamortized discounts of $43,208, unamortized bond issuance costs of $671,535, and deferred loss of $332,236):

	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Business-type activities				
Utility system revenue bonds:				
2001 various purpose	4.00-5.00	03/01/21	$ 1,285,000	$ 105,000
2003 refunding and improvements	4.00-4.30	03/01/12	95,000	95,000
2004 refunding and improvements	2.00-4.50	03/01/18	3,125,000	775,000
2004A various purpose	2.00-5.00	03/01/24	13,730,000	790,000
2005 Refunding	3.00-5.00	03/01/20	5,695,000	635,000
2005A various purpose	3.00-4.375	03/01/25	5,585,000	300,000
2006 various purpose	4.00-4.890	03/01/26	8,480,000	770,000
			37,995,000	3,470,000
Combination tax and revenue certificates of obligation:				
2006 various purpose	4.00-5.125	02/15/31	4,010,000	190,000
			4,010,000	190,000
Total business-type activities long-term bonded debt			42,005,000	3,660,000
Less: deferred amounts:				
On refunding			(332,236)	-
For issuance premiums and discounts			409,264	-
Net business-type activities long-term bonded debt			$ 42,082,028	$ 3,660,000

The annual requirements to amortize outstanding debt as of September 30, 2011, are summarized below. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable, and have not been included in the following summary:

Year Ended	General and Certificate of Obligation Bonds			Enterprise Revenue Bonds		
September 30,	Principal	Interest	Total	Principal	Interest	Total
2012	$ 5,845,000	$ 3,287,389	$ 9,132,389	$ 3,470,000	$ 1,647,984	$ 5,117,984
2013	5,670,000	3,072,102	8,742,102	3,125,000	1,513,747	4,638,747
2014	5,595,000	2,860,195	8,455,195	3,255,000	1,383,562	4,638,562
2015	5,555,000	2,652,152	8,207,152	2,680,000	1,260,275	3,940,275
2016	5,815,000	2,434,726	8,249,726	2,800,000	1,144,150	3,944,150
2017-2021	29,105,000	8,471,822	37,576,822	13,395,000	3,751,261	17,146,261
2022-2026	21,565,000	2,694,706	24,259,706	9,270,000	892,626	10,162,626
2027-2031	2,410,000	291,060	2,701,060	-	-	-
Total	$ 81,560,000	$ 25,764,152	$ 107,324,152	$ 37,995,000	$ 11,593,605	$ 49,588,605

(continued)

V. OTHER INFORMATION (Continued)

E. Long-term Debt (Continued)

As of September 30, 2011, the City had authorized, but unissued general obligation bonds outstanding as follows:

Date	Purpose	Amount Authorized	Previously Issued	Unissued Balance
01/18/1997	Streets	$ 15,000,000	$ 11,040,000	$ 3,960,000

Revenue Bonds

The ordinance authorizing the water and sewer revenue bonds stipulate that the City will deposit, in addition to principal and interest requirements, certain amounts in a reserve fund. Amounts in the reserve fund are to be used to pay principal and interest on outstanding bonds at any time sufficient funds are not available in the Bond Interest and Sinking Fund. Amounts in the interest and sinking, and reserve funds, reported as restricted assets in the accompanying combined financial statements at September 30, 2011, were sufficient to meet the reserve requirements. The bonds have various call options whereby they may be redeemed during certain periods prior to maturity.

Compliance With Debt Covenants

At September 30, 2011, and for the year then ended, the City was in compliance with all financial bond covenants on outstanding revenue and general obligation bonded debt.

Conduit Debt

On August 1, 2006, the City of Rowlett, along with three other cities and Rockwall County, approved an agreement with the Rockwall County Emergency Services Corporation ("RESC") to construct a firearms training facility in an aggregate principal amount not to exceed $2,925,000. Under the terms of the agreement, each jurisdiction's debt service liability, as well as an operations component, would be based proportionately upon the number of Authorized Personnel (i.e. active certified peace officers) as of April 1st of the preceding fiscal year. On August 23, 2006, the RESC issued $2,700,000 in contract revenue bonds with a 10-year maturity. Based on Rowlett's Authorized Personnel count as of April 1, 2006, the City's initial anticipated annual payments under the agreement ranges from $104,676 to $106,272 but may vary from year to year under the terms of the agreement. On June 28, 2011, the RESC refunded the original 2006 bonds and issued additional contract revenue bonds totaling $415,000 for necessary structural improvements.

During the current year, the City's paid $105,009 as its annual obligation under this agreement. The City will continue to share in the debt service and operating expenses of the facility based on their authorized personnel count. As of September 30, 2011, the outstanding balance was $1,925,000. The City has no obligation for this debt beyond the resources provided by this agreement.

Capital Leases

On September 14, 2010, the City entered into an agreement with SunTrust Equipment Finance & Leasing Corp. to purchase two fire trucks. The agreement is for an approximate 110-month term based on delivery of the equipment and expires on October 31, 2019. Payments are $99,888 annually and carry an effective interest rate of 2.77%.

On September 11, 2009, the City entered into an agreement with Kansas State Bank of Manhattan to purchase and install computer equipment. The agreement is for an approximate 36-month term based on delivery of the equipment and expires on October 31, 2011. Payments are $37,367 annually and carry an effective interest rate of 5.95%.

(continued)

V. OTHER INFORMATION (Continued)

E. **Long-term Debt** (Continued)

Capital Leases (Continued)

On July 24, 2009, the City entered into an agreement with Baystone Financial Group totaling $152,925 to purchase two cab and chassis ambulance remounts. The agreement is for an approximate 26 month term based on delivery of the equipment and expires on September 25, 2011. The first payment was due September 25, 2009, and annually in the amount of $54,430 through expiration and carry an effective interest rate of 5.75%.

On December 10, 2008, the City entered into an agreement with Baystone Financial Group totaling $9,094 to purchase a payment remittance processor. The agreement is for an approximate 23 month term based on delivery of the equipment and expires on October 31, 2010. Payments are $3,184 annually and carry an effective interest rate of 5.24%.

The City previously entered into an agreement with Baystone Financial Group totaling $39,461 to purchase a police recorder system. The agreement is for a five-year term based on delivery of the equipment and expires on December 15, 2012. Payments are $7,496 annually and carry an effective interest rate of 5.79%.

The City previously entered into an agreement with Koch Financial Corporation totaling $174,897 to purchase a police video system. The agreement is for a four-year term based on delivery of the equipment and expires on October 15, 2011. Payments are $48,456 annually and carry an effective interest rate of 4.36%.

The City previously entered into an agreement with Elterkon Capital totaling $494,515 to purchase a Fire Rescue Engine. The agreement is for a 9-year term based on delivery of the equipment and expires on October 15, 2015. Payments are $60,671 annually and carry an effective interest rate of 4.17%.

The City previously entered into an agreement with All America Finance Group in 2005 totaling $5,183,559 to replace its water meter system and for various facility improvements. The agreement is for a 15-year term expiring on July 10, 2020. Payments are made quarterly, ranging from $108,000 to $128,000 and carries an effective interest rate of 3.99%. Responsibility for repaying the debt is split between the General Fund and Water and Sewer Fund at 9.5% and 90.5%, respectively.

The assets acquired through capital leases are as follows:

	Water and Sewer	Governmental Activities	Total
Asset:			
Motor vehicles	$ -	$ 1,529,118	$ 1,529,118
Machinery and equipment	5,108,300	1,280,123	6,388,423
Less: accumulated depreciation	(1,766,836)	(980,185)	(2,747,021)
Total	$ 3,341,464	$ 1,829,056	$ 5,170,520

(continued)

V. OTHER INFORMATION (Continued)

E. Long-term Debt (Continued)

Capital Leases (Continued)

Pursuant to the terms of the capital lease agreements, the following schedule represents the net present value of these minimum lease payments as of September 30:

Year Ending September 30,	Water and Sewer	Governmental Activities	Total
2012	$ 488,562	$ 484,008	
2013	488,562	398,185	886,747
2014	488,562	337,324	825,886
2015	488,562	337,324	825,886
2016	488,562	337,324	825,886
2017-2020	1,775,054	952,245	2,727,299
Total minimum lease payments	4,217,864	2,846,410	7,064,274
Less: amount representing interest	(669,058)	(337,059)	(1,006,117)
Present value of minimum lease payments	$ 3,548,806	$ 2,509,351	$ 6,058,157

F. Insurance

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the City purchased commercial insurance from Texas Municipal League ("TML") to cover these general liabilities, including workers' compensation and medical. TML purchases reinsurance and does not retain the risk of loss. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage in each of the past three fiscal years.

G. Interfund Transfers, Receivable and Payables

The composition of interfund balances as of September 30, 2011, is as follows:

Due to/from Other Funds

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	$ 63,405
	Internal service	29,874
		$ 93,279

The negative cash balances are the result of timing of accounts receivable collections.

(continued)

V. OTHER INFORMATION (Continued)

G. Interfund Transfers, Receivable and Payables (Continued)

The City makes transfers between its funds for several reasons. General and administrative (indirect) costs are allocated between operating funds, such as the General Fund and Water and Sewer Fund, to recover overhead and administrative cost of service performed by one fund for the benefit of another. The amounts transferred represent the net balance due between the funds based on the services provided. Payments in lieu of property taxes are paid by the Water and Sewer Fund to the General Fund. This fee is calculated at the same rate as the City's approved property tax rate per $100 of assessed valuation based on the Water and Sewer Fund's capital assets. An amount is also transferred from the Water and Sewer Fund to the General Fund as a payment in lieu of franchise fees and represents similar charges paid by electric, gas, and cable and telecommunication franchises for use of City rights-of-way. This fee is calculated as 5% of gross revenues less interest earnings. The Refuse Fund transfers funds to cover the cost of alley repairs and improvements to the Capital Projects Fund. Finally, the General Fund and Water and Sewer Fund each share the costs of Economic Development activities reported in the General Fund.

Individual transfers, as reported at the fund statement level, for the year ended September 30, 2011, were as follows:

	Transfers in	Transfers Out
Governmental activities		
General	$ 2,109,193	$ 1,503,365
Debt service	924,424	-
Capital projects	3,412,484	-
Nonmajor governmental funds	-	454,925
Internal Service	511,331	-
Business-type activities		
Water and sewer	150,000	3,459,193
Refuse	-	1,589,949
Drainage	-	100,000
Total	$ 7,107,432	$ 7,107,432

(continued)

V. OTHER INFORMATION (Continued)

G. Interfund Transfers, Receivable and Payables (Continued)

Transfer from	Transfer to	Amount	
General	Capital projects	$ 452,484	Capital projects
	Debt service	389,550	Debt service
	Water and sewer	150,000	Golf course improvements
	Internal service	511,331	Self-insurance contributions
Nonmajor governmental			
Impact fees	Capital projects	160,000	Capital projects
TIF	Debt service	294,925	Debt service
Water and sewer			
	General	808,073	In-lieu of property taxes
	General	1,154,050	Franchise fees
	General	147,070	Economic development
	Capital projects	1,350,000	Capital projects
Drainage	Capital projects	100,000	Capital projects
Refuse	Capital projects	1,350,000	Capital projects
	Debt service	239,949	Debt service
		$ 7,107,432	

H. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The plan is administered by ICMA Retirement Corporation ("IMCA") and contributions are voluntary. All amounts of compensation under this plan are placed into investment pools administered by ICMA. The plan, available to all regular employees, permits them to defer until future years up to 100% of compensation, not to exceed $16,500 ($22,000 if over age 50) per year. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The City has amended its deferred compensation plans to conform with the requirements of subsection (g) of IRC Section 457 making all assets and income of the plans to be held in trust for the exclusive benefit of participants and beneficiaries. In accordance with GASB Statement No. 32, the City's Deferred Compensation Plan is no longer included in the financial statements of the City.

I. Postemployment Benefits

Post-retirement Health Care Benefits

The City offers its retired employees health insurance benefits through a single-employer defined benefit OPEB plan, under City policy. The benefit plan was established by the City in 2002 and last amended in 2005. No separate pension plan report is issued. This plan is administered by the City and no separate audited financial statements are available.

(continued)

V. OTHER INFORMATION (Continued)

I. Postemployment Benefits (Continued)

Post-retirement Health Care Benefits (Continued)

Retired employees who have satisfied the retirement requirement as defined by the Texas Municipal Retirement System (TMRS) are eligible to participate. The City has elected the retirement requirement as any age with 20 years of service or 5 years of service for age 60 and above. Retirees under 65 retiring under the TMRS system are eligible to receive premium payments of individual (not dependent) health insurance benefits for a period of time equal to one month for every full year of service with the City. Employees are eligible immediately upon retirement and the eligibility only runs from the retirement date. Active employees do not contribute any of their wages toward retiree health care benefits. The City pays the employee-only premium for medical coverage, based on the City's Core Medical Plan Option. Retired employees are required to pay 100% of any additional premium expense for health benefits purchased upon retirement.

Spouse and eligible dependents are eligible to continue to purchase health benefits per Chapter 175 provisions. The City does not pay any portion of spouse or dependent medical coverage.

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The City implemented the provisions of GASB 45 for the fiscal year ending September 30, 2009, as required by GASB. The City's annual OPEB cost for the current year and the related information is listed below:

Annual required contribution (ARC)	$ 364,990
Interest net OPEB obligation	22,560
Adjustment to the ARC	(20,902)
Annual OPEB cost	366,648
Employer contribution	128,169
Increase in net OPEB obligation	238,479
Net OPEB obligation, beginning of year	501,339
Net OPEB obligation, end of year	$ 739,818

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4.5% discount rate, and level percent of pay amortization) follow:

Fiscal Year Ended	OPEB Cost	Employer Contribution	Percentage Contributed	OPEB Obligation
09/30/09	$ 281,737	$ 27,930	9.91%	$ 253,807
09/30/10	355,198	107,666	30.31%	501,339
09/30/11	364,990	128,169	35.12%	739,818

(continued)

V. OTHER INFORMATION (Continued)

I. **Postemployment Benefits** (Continued)

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Fiscal Year	Covered Payroll	Percent of Covered Payroll
12/31/08	$ -	$ 2,924,489	$ 2,924,489	- %	2009	$ 19,165,822	15.26%
12/31/09	-	3,325,706	3,325,706	- %	2010	18,924,557	17.57%

This is the third year of implementation of GASB 45. Accordingly, only two years of funding progress are available as GASB 45 only requires the City to have actuarial evaluations performed every two years. Additional years of funding progress will be presented in future years, as they become available.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the type of benefit provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial valuation date	December 31, 2009	December 31, 2010
Actuarial cost method	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	30 years; open	28 years; open
Asset valuation method	Market value	Market value
Actuarial assumptions:		
Investment rate of return	4.5%	4.5%
Payroll growth rate	3.0%	3.0%
Projected salary increases	3.0%	3.0%
General inflation rate	3.0%	3.0%

Post-retirement Supplemental Death Benefit

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefit Fund (SDBF). The City elected by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City can terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other postemployment benefit," or OPEB.

(continued)

V. OTHER INFORMATION (Continued)

I. <u>Postemployment Benefits</u> (Continued)

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire career.

The City's contribution to the TMRS SDBF for the years ended 2011, 2010, and 2009 were $1,865, $1,916, and $1,892, respectively, at the City required contribution rate of 0.01% which equaled the required contribution each year.

J. <u>Commitments and Contracts</u>

The City has several long-term agreements with significant commitments as follows:

1. ***North Texas Municipal Water District Water Purchase Agreement* –** The City has a long-term contract with the North Texas Municipal Water District for the purchase of treated water. The contract for water is dated June 3, 1965, and is for a period of 40 years. Over the years, the contract has been amended to provide for additional services as the City has grown. Currently, the City receives water at three take points. For the year ended September 30, 2011, the City contracted for an annual requirement of 3,192,039,000 gallons. The actual amount of water taken was 3,091,023,000 gallons.

2. ***City of Garland Sewage Treatment Agreement* –** The City entered into a contract with the City of Garland for sewage treatment effective April 2, 1991, which was later amended on June 8, 1994. Payments are determined based on actual metered flows into the City of Garland's treatment facility. No minimum payments are required. Rates are reviewed yearly and adjusted under the terms of the contract. The contract is in force until April 1, 2020.

3. ***Solid Waste Disposal Contract* –** In August 2002, the City contracted with IESI TX Corporation to provide collection of refuse and recyclable materials within the corporate limits of the City. The initial contract is for a period of five years beginning October 1, 2002, and shall automatically extend for one successive five-year term unless either party terminates the contract in writing. Collection rates may be adjusted yearly based upon the terms of the contract. An administrative fee assessed by the City is retained in the Enterprise Fund as a charge for service.

4. The City is involved in various claims and litigation arising in the ordinary course of operations, none of which, in the opinion of City officials and management, will have complex material effect on the City's financial position.

5. The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of the City, disallowed cash, if any, would not be material.

(continued)

V. OTHER INFORMATION (Continued)

J. <u>Commitments and Contracts</u> (Continued)

6. The City has several rebate agreements with various developers entered into for economic development purposes. One of these agreements is with D.R. Horton, Inc. This agreement is for a 30-year period and includes required rebates of 90% of the sales taxes paid. During the current fiscal year, the City rebated $1,213,919 of the $1,348,799 paid by D.R. Horton. Due to a change in state law, the agreement with D.R. Horton was terminated on September 1, 2011. As a result, the City adjusted its revenue projections for fiscal year 2012 accordingly.

7. The City has contractual commitments of approximately $9,242,288 in the Capital Projects Funds, $1,806,112 in the Water and Sewer Fund, and $166,291 in the Drainage Fund. These commitments are for construction of various projects and will be funded primarily from general obligation bond proceeds and certificates of obligations in the Capital Projects Funds, and revenue bond proceeds in the Water and Sewer Fund.

K. <u>Change in Accounting Principles</u>

For fiscal year 2011, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that compromise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the City reclassifying fund balances of its governmental funds.

L. <u>Subsequent Events</u>

Bond Refunding

On October 12, 2011, the City issued $9,000,000 of General Obligation Refunding Bonds, Series 2011. Proceeds from the sale of the bonds will be used to refund a portion of the City’s outstanding debt in order to lower the overall debt service requirements of the City. The bonds will be used to refund $1,180,000 of Waterworks and Sewer System Revenue Bonds, Series 2001, $4,000,000 of Combination Tax and Limited Surplus Revenue Bonds, Series 2001, $4,000,000 of Combination Tax and Limited Surplus Revenue Certificates of Obligation, Taxable Series 2003, and $2,190,000 of General Obligation Bonds, Series 2003-A.

Lease Commitments

On January 4, 2012, the City entered into a lease purchase agreement with Branch Banking & Trust Company (BB&T) for the acquisition of a 2011 Dodge Ram Diesel Chassis with Frazer Type I Ambulance Module. The agreement provides for BB&T to make funding available to the City in the total sum of $136,300 to enable the City to acquire the equipment. The first annual lease payment is due October 15, 2012.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

CITY OF ROWLETT, TEXAS
WATERWORKS AND SEWER SYSTEM REVENUE BONDS, SERIES 2012
IN THE AGGREGATE PRINCIPAL AMOUNT OF $8,645,000

AS BOND COUNSEL FOR THE CITY OF ROWLETT, TEXAS (the "Issuer") in connection with the issuance of the Waterworks and Sewer System Revenue Bonds, Series 2012, described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature and are subject to redemption on the dates, in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Ordinance").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds will constitute valid and legally binding special obligations of the Issuer, and that the principal of and interest on the Bonds, together with other outstanding revenue bonds of the Issuer, are payable from and secured by a lien on and pledge of Net Revenues of the Issuer's combined Waterworks and Sewer System. The Issuer has reserved the right, subject to the covenants and conditions stated in the Ordinance, to issue additional revenue obligations payable from and secured by a lien on and pledge of the net revenues of the System on a parity with the Bonds. The holders of the Bonds shall never have the right to demand payment thereof out of any funds raised or to be raised by taxation.

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

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

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

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

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

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

Respectfully,

Financial Advisory Services
Provided By

FirstSouthwest