OFFICIAL STATEMENT

July 17, 2018

(See "Continuing Disclosure of Information" herein)

Ratings:
Moody's: "Aa2"
S&P: "AA"
See "OTHER INFORMATION – Ratings" herein

NEW ISSUE - Book-Entry-Only

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

THE BONDS **HAVE NOT BEEN** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$19,255,000
CITY OF ROWLETT, TEXAS
(Dallas and Rockwall Counties)
GENERAL OBLIGATION BONDS, SERIES 2018

Dated Date: As of the Date of Delivery
Interest to accrue from Date of Delivery

Due: February 15, as shown on page 2

PAYMENT TERMS. . . Interest on the $19,255,000 City of Rowlett, Texas, General Obligation Bonds, Series 2018 (the "Bonds"), will accrue from the Date of Delivery (defined below), will be payable February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption, and 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 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" 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 Constitution and general laws of the State of Texas, including particularly Chapter 1331 of the Texas Government Code, as amended, an election held in the City of Rowlett, Texas (the "City") on May 5, 2018 and an ordinance adopted by the City Council of the City (the "Ordinance"). The Bonds constitute direct obligations of the City, payable from a continuing ad valorem tax levied on all taxable property within the City within the limits prescribed by law, as provided in the Ordinance (see "THE BONDS - Authority for Issuance").

PURPOSE. . . Proceeds from the sale of the Bonds will be used to (i) finance the construction and improvement of City streets, (ii) finance the construction, improvement and equipment of municipal park and recreation facilities, (iii) finance the construction, improvement and equipment of public safety facilities and (iv) pay legal, fiscal, engineering and architectural fees in connection with these projects and to pay costs of issuance of the Bonds.

CUSIP PREFIX: 779699
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 Initial Purchaser of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY. . . It is expected that the Bonds will be available for delivery through DTC on August 16, 2018 (the "Date of Delivery").

CUSIP Prefix: 779699[1]

MATURITY SCHEDULE

15-Feb Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix
2019	$ 505,000	5.000%	1.400%	DB0
2020	480,000	5.000%	1.580%	DC8
2021	460,000	5.000%	1.760%	DD6
2022	720,000	5.000%	1.910%	DE4
2023	760,000	5.000%	2.020%	DF1
2024	795,000	5.000%	2.180%	DG9
2025	835,000	5.000%	2.340%	DH7
2026	880,000	5.000%	2.490%	DJ3
2027	925,000	5.000%	2.600%	DK0
2028	975,000	5.000%	2.690%	DL8
2029	1,025,000	5.000%	2.760% [2]	DM6
2030	1,065,000	3.000%	3.000%	DN4
2031	1,095,000	3.000%	3.100%	DP9
2032	1,130,000	3.000%	3.200%	DQ7
2033	1,165,000	3.125%	3.300%	DR5
2034	1,205,000	3.250%	3.350%	DS3
2035	1,245,000	3.250%	3.400%	DT1
2036	1,285,000	3.250%	3.450%	DU8
2037	1,330,000	3.375%	3.470%	DV6
2038	1,375,000	3.375%	3.500%	DW4

(Interest to accrue from the Date of Delivery)

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

(2) Yield shown is yield to first call date, February 15, 2028.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

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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.

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 as having been authorized by the City. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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. 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.

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

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

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

THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN 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. SEE "CONTINUING DISCLOSURE OF INFORMATION" FOR A DESCRIPTION OF THE CITY'S UNDERTAKING TO PROVIDE CERTAIN INFORMATION ON A CONTINUING BASIS.

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 of Texas (the "State"), located in Dallas and Rockwall Counties, Texas. The City covers approximately 19 square miles (see "INTRODUCTION - Description of the City").

THE BONDS .... The $19,255,000 City of Rowlett, Texas, General Obligation Bonds, Series 2018 are issued as serial Bonds maturing on February 15 in each of the years 2019 through 2038 (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the date of initial delivery of the Bonds to the Initial Purchaser, and is payable February 15, 2019, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds").

AUTHORITY FOR ISSUANCE .... The Bonds are authorized and issued pursuant to the Constitution and general laws of the State, particularly Chapter 1331, Texas Government Code, as amended, an election held within the City on May 5, 2018 and an ordinance passed by the City Council of the City (the "Ordinance") (see "THE BONDS - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City, as provided in the Ordinance authorizing the Bonds (see "THE BONDS - Security and Source of Payment").

NOT QUALIFIED TAX-EXEMPT OBLIGATIONS .... The City **has not** designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

REDEMPTION .... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, 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.

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used to (i) finance the construction and improvement of City streets, (ii) finance the construction, improvement and equipment of municipal park and recreation facilities, (iii) finance the construction, improvement and equipment of public safety facilities and (iv) pay legal, fiscal, engineering and architectural fees in connection with these projects and to pay costs of issuance of the Bonds.

RATINGS .... The Bonds and the presently outstanding tax supported debt of the City are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by S&P Global Ratings, a division of S&P Global Inc. ("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. 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 bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population[(1)]	Taxable Assessed Valuation[(2)]	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt [(3)]	Per Capita G. O. Tax Debt	Ratio G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	58,476	$ 3,116,498,883	$ 53,295	$ 74,265,000	$ 1,270	2.38%	99.85%
2015	60,002	3,274,028,998	54,565	75,880,000	1,265	2.32%	99.80%
2016	60,236	3,587,455,377	59,557	75,330,000	1,251	2.10%	99.64%
2017	61,999	3,934,914,024	63,467	78,525,000	1,267	2.00%	99.39%
2018	61,999	4,384,151,359	70,713	89,270,000 [(4)]	1,440 [(4)]	2.04% [(4)]	99.54% [(5)]

(1) Source: North Central Texas Council of Governments.
(2) As reported by the Dallas and Rockwall Central Appraisal Districts on the City's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt.
(4) Collections as of April 30, 2018.
(5) Projected. Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Beginning Fund Balance	$7,909,934	$7,147,882	$7,777,808	$7,175,829	$7,482,083
Total Revenue	37,958,231	36,500,891	33,365,022	30,445,027	29,311,887
Total Expenditures	36,086,060	36,199,310	37,354,412	32,512,353	30,942,025
Net Transfers	(2,413,728)	460,471	3,359,464	2,669,305	1,323,884
Proceeds from sale of Assets	1,417,865	-	-	-	-
Net Funds Available	876,308	762,052	(629,926)	601,979	(306,254)
Ending Fund Balance	$8,786,242	$7,909,934	$7,147,882	$7,777,808	$7,175,829

For additional information regarding the City, please contact:

Brian Funderburk		W. Boyd London, Jr.
City Manager		Marti Shew
City of Rowlett, Texas	or	Hilltop Securities Inc.
4000 Main Street		1201 Elm Street, Suite 3500
Rowlett, Texas 75088		Dallas, Texas 75270
(972) 412-6100		(214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Tammy Dana-Bashian Mayor	5 Years	May 2019	Certified Public Accountant
Martha Brown Mayor Pro Tem	2 Years	May 2019	Executive Director/KRB
Matt Grubisich Deputy Mayor Pro-Tem	9 Months	May 2020	Director of Operations
Robert Blake Margolis Councilmember Place 1	9 Months	May 2020	VSF Employee
Brownie Sherrill Councilmember Place 2	9 Months	May 2019	Retired
Debby Bobbitt Councilmember Place 4	5 Years	May 2019	Disaster Services Supervisor
Pamela Bell Councilmember Place 5	1 Year	May 2020	Realtor

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service With City	Total Governmental Service
Brian Funderburk	City Manager	14 Years	32 Years
Vacant	Chief Financial Officer	-	-
Wendy Badgett	Assistant Director of Finance/ Interim CFO	6 Years	15 Years
Laura Hallmark	City Secretary	5 Years	12 Years
Stacey Chadwick	Deputy City Secretary	14 Years	14 Years

CONSULTANTS AND ADVISORS

Auditors .... Weaver and Tidwell LLP
Dallas, Texas

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

Financial Advisor .... Hilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

$19,255,000
CITY OF ROWLETT, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $19,255,000 City of Rowlett, Texas, General Obligation Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein) except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City of Rowlett, Texas (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, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and home-rule municipal corporation of the State of Texas (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 May 7, 2016. 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 odd-numbered years and the other terms of the three Council members expiring in even-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 2010 Census population for the City was 56,199, while the estimated 2018 population is 61,999. The City covers approximately 19 square miles. For additional information relating to the City, see "Appendix A - General Information Regarding the City."

THE BONDS

DESCRIPTION OF THE BONDS. . . The Bonds are dated as of the Date of Delivery. The Bonds mature on February 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the date of initial delivery of the Bonds to the Initial Purchaser (defined herein), will be computed on the basis of a 360-day year of twelve 30-day months and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, 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 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" herein.

AUTHORITY FOR ISSUANCE. . . The Bonds are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Chapter 1331, Texas Government Code, as amended, an election held in the City on May 5, 2018, and the ordinance passed by the City Council of the City (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT. . . All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

TAX RATE LIMITATION. . . All taxable property within the City is subject to the assessment, levy, and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts a maximum tax rate of $1.25 per $100 taxable assessed valuation.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. 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, 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, PROVIDED THAT MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE AND THE INTEREST ACCRUED ON THE PRINCIPAL AMOUNT TO BE REDEEMED TO THE DATE OF REDEMPTION ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR.

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

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 or indirect participant to notify the beneficial owner, shall 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 and then DTC participants and indirect participants may 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 DTC participants, indirect 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, indirect participants, or beneficial owners of the selection of portions of the Bonds selected for redemption (see "THE BONDS - Book-Entry-Only System").

DEFEASANCE. . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal and premium, if any, on the Bonds, plus interest on the Bonds to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar or another authorized escrow agent, in trust (1) money sufficient to make such payment and/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, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City additionally has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other 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. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge 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 the governing body of the City authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (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 the governing body of the City adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. 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 will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that 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. 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 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.

AMENDMENTS. . . In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the Bonds 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 a majority of the outstanding Bonds will 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.

BOOK-ENTRY-ONLY SYSTEM. . . *This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities 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 corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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 Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within 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. will consent or vote with respect to the 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 the 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 payable dates 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 in 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, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) with respect to the Bonds. In that event, the Bonds will be printed and delivered.

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

Use of Certain Terms in Other Sections of this Official Statement. . . In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the 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 Initial Purchaser.

Effect of Termination of Book-Entry-Only System. . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City with respect the Bonds, printed Bonds will be issued to the holders and the 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 for the Bonds 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, trust company, financial institution 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 affected by the changes 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 with respect to the Bonds, printed Bonds will be issued to the registered owners of the Bonds and thereafter such printed 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 principal 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 will be required to make any transfer, conversion, or exchange of a Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

PAYMENT PROVISIONS. . . Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption of a Bond upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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 last 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 a Bond 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.

REPLACEMENT BONDS. . . If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BONDHOLDERS' 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 is controlled by equitable principles, and thus rests within 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 Bondholders 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 has 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, Bondholders 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 Bondholders 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 Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

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

Sources:	
Par Amount	$19,255,000.00
Net Premium	1,014,697.90
TOTAL SOURCES	$20,269,697.90
Uses:	
Deposit to Project Fund	$19,970,000.00
Costs of Issuance	143,732.40
Underwriters' Discount	155,965.50
TOTAL USES	$20,269,697.90

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TAX INFORMATION

AD VALOREM TAX LAW. . . The appraisal of property within the City is the responsibility of the Dallas and Rockwall Central Appraisal Districts (jointly, the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code (the "the Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within Appraisal District is subject to review by an Appraisal Review Board within each respective Appraisal District, consisting of members appointed by the Board of Directors of each respective Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the appropriate Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value and the exemption of certain personal property from ad valorem taxation.

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

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000. Senate Joint Resolution 1 ("Senate Joint Resolution 1"), passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from $15,000 to $25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. While Senate Joint Resolution 1 is not directly applicable to municipalities and counties, Senate Bill 1, which was also passed by the 84th Legislature, provides that if Senate Joint Resolution 1 was approved by the voters on November 3, 2015, then the governing body of a school district, municipality, or county is prohibited from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period running through December 31, 2019. Senate Joint Resolution 1 was approved by voters on November 3, 2015, and, therefore, such prohibition is in effect.

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

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

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

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

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) transported to another location inside or outside the State within 175 days of the date the property was acquired or imported into the State. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, as amended, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also 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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE. . . By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". Under current law, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or of the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT. . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST. . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment of the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE. . . The City currently grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $30,000; the disabled are also granted an exemption of $50,000. These exemptions were revised for the 2015 Ad Valorem Tax Roll.

The City has granted an additional exemption of 1% of the market value of residence homesteads; minimum exemption of $5,000. The City is prohibited from reducing the amount of or repealing this optional homestead exemption prior to December 31, 2019.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are levied by the City against the value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property.

Dallas County collects taxes for the City.

The City does not permit split payments, and discounts are not allowed.

The City does not tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has established a freeze on the taxes on residence homesteads of persons 65 years of age or who are disabled, as may be done on a local option basis.

The City has adopted a tax abatement policy, which provides for abatements of 10-100%, depending upon a number of criteria, including economic impact to the City and total value of the project. The City currently has no tax abatement agreements

The City will, on a case-by-case basis, give consideration to providing incentives as stimulation for economic development in the City.

ECONOMIC DEVELOPMENT INITIATIVES

TAX INCREMENT FINANCING . . . A city may utilize tax increment financing, pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, as amended, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation.

Pursuant to an ordinance adopted April 7, 2015, the City established Tax Increment Reinvestment Zone Number Two, City of Rowlett, Texas ("Zone #2"). Zone #2 contains approximately 317 acres of land, comprised of a predominately undeveloped area in the southeastern portion of the City adjacent to Interstate 30 (the former "Elgin B. Robertson property"). The final project and financing plan for Zone #2 includes infrastructure improvements consisting of water and sewer improvements, street improvements, parks and public realm improvements, with a potential cost of $56 million over twenty years. Such projects are expected to be undertaken as development occurs and the captured appraised value in Zone #2 increases. The City cannot predict or make any representation as to the growth in taxable values in Zone #2 or the amount of project costs, and related debt financing, that will be undertaken. The City's tax increment base value for Zone #2 is $0. As development in Zone #2 has not begun, the increases of the taxable value of property in Zone #2 have been minimal. The City expects to contribute 50% of the tax increments collected by the City into the Zone #2 fund to be used for Zone #2 projects for a period of 20 years. Such tax revenues will be available to reimburse the developer for project costs.

Pursuant to an ordinance adopted April 4, 2017, the City established Tax Increment Reinvestment Zone Number Three, City of Rowlett, Texas ("Zone #3"). Zone #3 contains approximately 268 acres of land in Downtown Rowlett, comprised mostly of redevelopment opportunities and some vacant tracts. The final project and financing plan for Zone #3 includes infrastructure improvements consisting of water and sewer improvements, structured parking, street improvements, and wayfinding signage, with a potential cost of $14.3 million over twenty years, or $8.3 million in 2017 dollars. Such projects are expected to be undertaken as development occurs and the captured appraised value in Zone #3 increases. The City cannot predict or make any representation as to the growth in taxable values in Zone #3 or the amount of project costs, and related debt financing, that will be undertaken. The City's tax increment base value for Zone #3 was set when DCAD certifies values in July 2017. The City will contribute 50% of the tax increments collected in TIRZ #3 for a period of 20 years.

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 following is a list of material Chapter 380 agreements currently in place with the City:

> *Primo's Plaza:* 50% of the increase in property taxes attributable to improvements of at least $1.5 million and the addition of a minimum of 25 full-time jobs, not to exceed $5,604 per year for a duration of 4 years upon completion of construction.
>
> *Arcadia Realty Corp./Homestead @ Liberty Grove:* Waive water, wastewater and street impact fees for the first 3 phases of the project only in an amount not to exceed $2,573,000 for a duration of 10 years, terminating in March of 2023.
>
> *Realty Advisors Corp/Terra Lago Project:* 57% of property taxes, not to exceed $2,129,450 over the 10 year duration and waiver of roadway impact fees in an amount not to exceed $902,493 to commence once Realty Advisors incurred initial costs of forty million dollars.
>
> *Integral Development, LLC and Catalyst Urban Development, LLC:* 100% of property taxes commencing in 2017 through 2031. In addition a grant to the developer for the purchase price of the property and fees for water, wastewater and street impact are waived for the project. A grant in an amount not to exceed $1,950,000 will be paid to the developer subject to specific infrastructure improvements.
>
> *Bayside Land Partners, LLC:* This project is included in the Tax Increment Reinvestment Zone Number Two, and as such, 50% of the property tax increment generated from this project is abated through the year 2035 as outlined in the adopted project and financing plan.

PUBLIC IMPROVEMENT DISTRICTS . . . The City created the Bayside Public Improvement District (PID) effective September 15, 2015. The District contains approximately 317 acres of land, comprised of a predominantly undeveloped area in southeastern portion of the City and is broken down into the Bayside North Area and the Bayside South Area. The Service and Assessment Plan for the Bayside North Area includes infrastructure improvements --roadway, water, wastewater, storm drainage and public open space and totals $15.4 million. The Service and Assessment Plan for the Bayside South Area includes infrastructure improvements and amenities—roadway, water, wastewater, and public open space and totals $36.5 million. The PID debt was issued by the City in the form of Special Assessment Revenue Bonds—credit and repayment are solely from the assessments on the assessed property in the District.

MUNICIPAL MANAGEMENT DISTRICTS . . . The City created three municipal management districts effective June 17, 2011. The three separate management districts are: Pecan Grove, Downtown and Waterfront Entertainment.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/18 Market Valuation Established by the Appraisal District			$	4,986,733,428
Less Exemptions/Reductions at 100% Market Value				
Residence Homestead Exemptions	$	70,900,613		
Freeport		1,850,572		
Over 65 and Disabled		118,697,053		
Productivity Loss		37,042,221		
Capped Value Loss		206,089,181		
Disabled Veterans		29,557,231		
Pollution Control		29,383		
Totally Exempt Property		138,249,960		
Under 500		11,340		
Prorated Exempt Property		154,515		602,582,069
Adjustments				-
2017/18 Net Taxable Assessed Valuation			$	4,384,151,359
City Funded Debt Payable From Ad Valorem Taxes (as of 5/15/18)				
Oustanding General Obligation Debt	$	70,120,000		
The Bonds		19,255,000	$	89,375,000
Less: Self-Supporting Debt(1) (as of 5/15/18)				
Golf Course General Obligation Debt	$	3,455,000		
Drainage General Obligation Debt		2,305,000		
Water and Sewer General Obligation Debt		7,324,073	$	13,084,073
Net General Obligation Debt Payable from Ad Valorem Taxes			$	76,290,927
General Obligation Interest and Sinking Fund Balance (as of 5/1/18)			$	1,781,011
Ratio Net Funded Debt Payable from Ad Valorem Taxes to Taxable Assessed Valuation				1.74%

2018 Estimated Population - 61,999
Per Capita Taxable Assessed Valuation - $70,713
Per Capita Funded Debt Payable from Ad Valorem Taxes - $1,442
Per Capita Net Funded Debt Payable from Ad Valorem Taxes - $1,231

(1) General obligation debt, in the amounts shown, for which repayment is provided from revenues of the City's municipal golf course, drainage system and waterworks and sewer system. However, if the golf course, drainage system or waterworks and sewer system revenues are not sufficient to provide for the payment of such obligations, the City will be required to levy and collect ad valorem taxes sufficient to provide for the payment of the principal and interest on such obligations. See "Table 10 – Computation of Self-Supporting Debt" and "Table 8 – Pro Forma General Obligation Debt Service Requirements."

TABLE 1(a) - ADDITIONAL DEBT LIABILITIES

See "Table 12 – Other Obligations" for a description of the City's capital lease liabilities.

Please refer to "Pension Fund", page 26 for a complete description of the City's liability. Additional information with regard to the City's pension liability is also available via the TMRS website at www.tmrs.org.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 3,983,558,122	79.88%	$ 3,562,976,041	81.67%	$ 3,171,966,597	81.19%
Real, Residential, Multi-Family	32,067,250	0.64%	29,502,550	0.68%	22,569,860	0.58%
Real, Vacant Lots/Tracts	128,791,047	2.58%	90,849,750	2.08%	70,411,870	1.80%
Real, Acreage (Land Only)	37,402,220	0.75%	37,924,010	0.87%	32,823,220	0.84%
Real, Farm and Ranch Improvements	1,932,050	0.04%	2,424,130	0.06%	2,473,310	0.06%
Real, Commercial	602,138,492	12.07%	434,595,436	9.96%	408,030,770	10.44%
Real, Industrial	2,585,770	0.05%	2,690,170	0.06%	2,595,070	0.07%
Real and Tangible Personal, Utilities	60,157,093	1.21%	62,269,686	1.43%	60,781,840	1.56%
Tangible Personal, Commercial	119,114,291	2.39%	117,099,828	2.68%	111,531,140	2.85%
Tangible Personal, Industrial	15,216,523	0.31%	14,836,220	0.34%	14,230,010	0.36%
Tangible Personal, Mobile Homes	619,630	0.01%	623,670	0.01%	606,610	0.02%
Real Property, Inventory	2,432,070	0.05%	5,513,000	0.13%	8,137,250	0.21%
Special Inventory	718,870	0.01%	1,583,800	0.04%	620,900	0.02%
Total Appraised Value Before Exemptions	$ 4,986,733,428	100.00%	$ 4,362,888,291	100.00%	$ 3,906,778,447	100.00%
Less: Total Exemptions/Reductions	602,582,069		426,817,780		305,519,194	
Adjustments	-		(1,156,487)		(13,803,876)	
Taxable Assessed Value	$ 4,384,151,359		$ 3,934,914,024		$ 3,587,455,377	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 2,910,936,663	77.92%	$ 2,776,114,428	80.81%
Real, Residential, Multi-Family	22,538,920	0.60%	20,679,110	0.60%
Real, Vacant Lots/Tracts	99,547,620	2.66%	63,291,730	1.84%
Real, Acreage (Land Only)	25,640,680	0.69%	26,045,370	0.76%
Real, Farm and Ranch Improvements	8,434,100	0.23%	6,335,170	0.18%
Real, Commercial	474,877,566	12.71%	359,909,758	10.48%
Real, Industrial	2,549,070	0.07%	2,306,790	0.07%
Real and Tangible Personal, Utilities	63,272,730	1.69%	57,261,170	1.67%
Tangible Personal, Commercial	109,418,310	2.93%	107,507,490	3.13%
Tangible Personal, Industrial	14,276,100	0.38%	12,173,900	0.35%
Tangible Personal, Mobile Homes	597,110	0.02%	604,810	0.02%
Real Property, Inventory	2,922,520	0.08%	2,274,230	0.07%
Special Inventory	704,690	0.02%	773,270	0.02%
Total Appraised Value Before Exemptions	$ 3,735,716,079	100.00%	$ 3,435,277,226	100.00%
Less: Total Exemptions/Reductions	460,303,423		317,718,866	
Adjustments	(1,383,658)		(1,059,477)	
Taxable Assessed Value	$ 3,274,028,998		$ 3,116,498,883	

NOTE: Valuations shown are certified taxable assessed values reported by the Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated City Population[(1)]	Taxable Assessed Valuation [(2)]	Per Capita Taxable Assessed Valuation	Funded Tax Debt [(3)]	Ratio Funded Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2014	58,476	$3,116,498,883	$ 53,295	$74,265,000	2.38%	$ 1,270
2015	60,002	3,274,028,998	54,565	75,880,000	2.32%	1,265
2016	60,236	3,587,455,377	59,557	75,330,000	2.10%	1,251
2017	61,999	3,934,914,024	63,467	78,525,000	2.00%	1,267
2018	61,999	4,384,151,359	70,713	89,270,000 [(4)]	2.04% [(4)]	1,440 [(4)]

(1) Source: North Central Texas Council of Governments.
(2) As reported by the Appraisal District on the City's annual State Property Tax Reports; subject to change during the ensuing year.
(3) Includes self-supporting debt.
(4) Includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rates	General Fund	Interest and Sinking Fund	Tax Levy	% of Current Collections	% of Total Collections
2014	$0.747133	$0.504733	$0.242400	$ 23,072,444	99.27%	99.85%
2015	0.787173	0.549770	0.237403	25,318,845	99.25%	99.80%
2016	0.787173	0.577919	0.209254	27,332,380	99.01%	99.64%
2017	0.787173	0.551169	0.236004	29,530,076	99.39%	99.39%
2018	0.777173	0.551190	0.225983	32,412,773	98.46% [(1)]	99.54% [(1)]

(1) Collections as of April 30, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Lake Pointe Medical Center	Medical Center	$ 31,787,563	0.73%
Oncor Electric Delivery	Electric Utility	25,692,073	0.59%
HC Harmony Hill LLC	Apartment Community	25,017,950	0.57%
Wal-Mart Stores Texas LLC	Retail	22,843,860	0.52%
Bayside Land Partners	Land Developer	20,286,022	0.46%
ARC Lcrow TX 001 LLC	Property Management-Retail	14,547,940	0.33%
Target Corporation	Retail	13,655,310	0.31%
Frontier Communications	Telecommunications	12,999,993	0.30%
Home Depot	Retail	11,035,880	0.25%
Safeway, Inc	Grocery Store	10,836,460	0.25%
		$ 188,703,051	4.30%

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City’s Home Rule Charter (however, see “THE BONDS - Tax Rate Limitation”).

TABLE 6 - TAX ADEQUACY[1]

2018 Net Principal and Interest Requirements………………………………………………	$	9,348,682
$0.2154 Tax Rate at 98% Collection Produces ……………………………………	$	9,349,027
Average Net Principal and Interest Requirements (2018-2038)…………………………	$	5,139,849
$0.1185 Tax Rate at 98% Collection Produces ……………………………………	$	5,143,267
Maximum Net Principal and Interest Requirements, 2019………………………………	$	9,673,188
$0.2229 Tax Rate at 98% Collection Produces ……………………………………	$	9,674,551

(1) Includes the Bonds; excludes self-supporting debt. See “Table 10 – Computation of Self-Supporting Debt.”

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2017/18 Taxable Assessed Valuation	2017/18 Tax Rate	Total Tax Supported Debt As of 5/15/18	Estimated % Applicable	Overlapping Tax Supported Debt as 5/15/2018
City of Rowlett	$ 4,384,151,359	$ 0.7772	$ 76,290,927 [1]	100.00%	$ 76,290,927
Dallas County	224,416,323,244	0.2430	187,435,000	1.52%	2,849,012
Dallas County Community College District	231,510,039,944	0.1240	228,350,000	1.52%	3,470,920
Dallas County Hospital District	225,319,083,792	0.0090	73,770,000	1.52%	1,121,304
Dallas County Schools	207,228,323,960	1.4600	36,600,000	1.69%	618,540
Garland ISD	17,823,103,077	0.3500	516,975,090	19.85%	102,619,555
Rockwall County	10,562,783,885	1.4400	99,520,000	6.03%	6,001,056
Rockwall ISD	7,871,371,980		480,596,636	6.52%	31,334,901
Total Direct and Overlapping Tax Debt…………………………………………………………………………					$ 224,306,215
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation……………………………….					5.12%

(1) Includes the Bonds; excludes self-supporting debt.

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DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service[1] Principal	Outstanding Debt Service[1] Interest	Outstanding Debt Service[1] Total	The Bonds [2] Principal	The Bonds [2] Interest	The Bonds [2] Total	Less: Self-Supporting Obligations[3]	Net Debt Service	% of Principal Retired
2018	$ 8,510,000	$ 3,094,439	$ 11,604,439	$ -	$ -	$ -	$ 2,255,757	$ 9,348,682	
2019	7,735,000	2,757,124	10,492,124	505,000	751,035	1,256,035	2,074,971	9,673,188	
2020	7,695,000	2,438,146	10,133,146	480,000	728,538	1,208,538	2,066,828	9,274,855	
2021	7,670,000	2,119,922	9,789,922	460,000	705,038	1,165,038	2,037,912	8,917,047	
2022	7,520,000	1,784,592	9,304,592	720,000	675,538	1,395,538	1,899,986	8,800,144	42.23%
2023	6,865,000	1,469,911	8,334,911	760,000	638,538	1,398,538	1,898,292	7,835,157	
2024	6,365,000	1,197,409	7,562,409	795,000	599,663	1,394,663	1,898,545	7,058,526	
2025	4,525,000	972,095	5,497,095	835,000	558,913	1,393,913	598,795	6,292,212	
2026	3,155,000	804,528	3,959,528	880,000	516,038	1,396,038	601,786	4,753,779	
2027	1,740,000	693,128	2,433,128	925,000	470,913	1,395,913	252,239	3,576,801	69.69%
2028	1,800,000	624,471	2,424,471	975,000	423,413	1,398,413	247,859	3,575,024	
2029	1,870,000	560,078	2,430,078	1,025,000	373,413	1,398,413	254,611	3,573,879	
2030	1,925,000	490,681	2,415,681	1,065,000	331,813	1,396,813	243,353	3,569,141	
2031	1,755,000	417,365	2,172,365	1,095,000	299,413	1,394,413	241,553	3,325,225	
2032	1,605,000	349,253	1,954,253	1,130,000	266,038	1,396,038	244,540	3,105,750	84.26%
2033	1,670,000	283,740	1,953,740	1,165,000	230,884	1,395,884	242,103	3,107,522	
2034	1,735,000	214,165	1,949,165	1,205,000	193,100	1,398,100	244,453	3,102,813	
2035	1,810,000	139,581	1,949,581	1,245,000	153,288	1,398,288	241,378	3,106,491	
2036	1,200,000	78,512	1,278,512	1,285,000	112,175	1,397,175	243,090	2,432,597	
2037	915,000	40,315	955,315	1,330,000	68,850	1,398,850	244,378	2,109,788	98.12%
2038	225,000	20,240	245,240	1,375,000	23,203	1,398,203	245,240	1,398,203	
2039	235,000	10,340	245,340	-	-	-	245,340	-	100.00%
	$ 78,525,000	$ 20,560,032	$ 99,085,032	$ 19,255,000	$ 8,119,798	$ 27,374,798	$ 18,523,009	$ 107,936,821	

(1) "Outstanding Debt" does not include lease/purchase obligations.
(2) Average life of the Bonds: 11.608 years.
(3) General obligation debt for which repayment is provided from revenues of the City's municipal golf course, drainage system and waterworks and sewer system. However, if the golf course, drainage system or waterworks and sewer system revenues are not sufficient to provide for the payment of such obligations, the City will be required to levy and collect ad valorem taxes sufficient to provide for the payment of the principal and interest on such obligations. See "Table 10 – Computation of Self-Supporting Debt."

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION[(1)]

Estimated Net General Purpose Debt Service Requirements, Fiscal Year Ending 9/30/18		$ 9,348,682
Debt Service Fund Balance, 9/30/17	$ 556,438	
2017/18 Budgeted Interest and Sinking Fund Tax Revenues	9,255,384	
2017/18 Budgeted Interest Income	10,000	$ 9,821,822
Estimated Ending Fund Balance, 9/30/17		$ 473,140

(1) Includes the Bonds. Excludes "self-supporting debt." See "Table 10-Computation of Self-Supporting Debt" and "Table 8 – Pro Forma General Obligation Debt Service Requirements."

TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT

Revenue Available for Debt Service from Golf Course System, Fiscal Year Ended 9/30/17	$ 249,293
Less: Revenue Bond Requirements for period	-
Balance Available for Other Purposes	$ 249,293
Golf System General Obligation Bond Requirements for period ending 9/30/18	243,990
Balance	$ 5,303
Percentage of Golf System General Obligation Bonds Self-Supporting	100.00%
Revenue Available for Debt Service from Water and Sewer System, Fiscal Year Ended 9/30/17	$ 9,371,841
Less: Revenue Bond Requirements for period	2,687,650
Balance Available for Other Purposes	$ 6,684,191
Water and Sewer System General Obligation Bond Requirements for period ending 9/30/18	1,645,392
Balance	$ 5,038,799
Percentage of Water and Sewer System General Obligation Bonds Self-Supporting	100.00%
Revenue Available for Debt Service from Drainage System, Fiscal Year Ended 9/30/17	$ 724,339
Less: Drainage Bond Requirements for period	-
Balance Available for Other Purposes	$ 724,339
Drainage System General Obligation Bond Requirements for period ending 9/30/18	366,375
Balance	$ 357,964
Percentage of Drainage System General Obligation Bonds Self-Supporting	100.00%

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date Authorized	Purpose	Amount Authorized	Amount Heretofore Issued	Amount Being Issued[(1)]	Unissued Balance
05/05/18	Streets & Drainage	$ 41,470,000	$ -	$14,760,655	$ 26,709,345
05/05/18	Parks & Recreation	8,955,000	-	3,890,523	5,064,477
05/05/18	Public Safety	9,485,000	-	1,318,822	8,166,178
	Total	$ 59,910,000	$ -	$ 19,970,000	$ 39,940,000

(1) Includes premium.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT. . . The City anticipates issuing approximately $19,970,000 of additional general obligation debt within the next 12 months.

TABLE 12 – OTHER OBLIGATIONS

Capital Lease

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase water meters and parts, haul trucks and a trailer. The agreement is for an approximate sixty-six month term based on delivery of equipment and expires on July 15, 2020. Payments are $132,968 annually and carry an effective interest rate of 1.645%.

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase a patch truck, backhoes, and a Gradall excavator. The agreement is for an approximate ninety month term based on delivery of equipment and expires on July 15, 2022. Payments are $116,620 annually and carry an effective interest rate of 1.905%.

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase fire trucks. The agreement is for ten annual payments and expires on November 1, 2024. Payments are $198,831 annually and carry an effective interest rate of 2.01%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase fire protective clothing and bunker gear. The agreement is for five annual payments and expires on July 10, 2019. Payments are $49,706 annually and carry an effective interest rate of 1.57%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase a fuel management system. The agreement is for seven annual payments and expires on July 10, 2021. Payments are $15,339 annually and carry an effective interest rate of 1.79%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase water meters. The agreement is for five annual payments and expires on July 10, 2019. Payments are $54,670 annually and carry an effective interest rate of 1.56%.

The City previously entered into an agreement with Whitney Bank to purchase three maintenance trucks. The agreement is for seven annual payments and expires on August 22, 2021. Payments are $110,546 annually and carry an effective interest rate of 1.632%.

The City previously entered into an agreement with SunTrust Leasing Corporation to purchase an enterprise resource planning system. The agreement is for an approximate 75 month term based on delivery of the equipment and expires on August 15, 2020. Payments are $126,327 annually and carry an effective interest rate of 1.82%.

The City previously entered into an agreement with Pinnacle Public Finance Inc. to purchase a self-contained breathing apparatus. The agreement is for an approximate 108 month term based on delivery of the equipment and expires on October 31, 2023. Payments are $44,683 annually and carry an effective interest rate of 2.63%.

The City previously entered into an agreement with Pinnacle Public Finance Inc. to purchase two ambulances and a payroll system. Both agreements are for approximate 48 month terms based on delivery of the equipment and both expire on October 31, 2018. Payments are $75,430 and $76,350, respectively, annually and carry an effective interest rate of 2.00%.

The City previously entered into an agreement with SunTrust Leasing Corporation to purchase water meters. The agreement is for an approximate 50 month term based on delivery of the equipment and expires on October 15, 2018. Payments are $89,035 annually and carry an effective interest rate of 1.38%.

The City previously entered into an agreement with Clayton Holdings to purchase a diesel chassis with crane. The agreement is for an approximate 72 month term based on delivery of the equipment and expires on December 17, 2018. Payments are $22,824 annually and carry an effective interest rate of 1.61%.

The City previously entered into an agreement with Capital One to purchase police and fire software. The agreement is for a nine year term based on delivery of the equipment and expires on September 30, 2020. Payments are $80,085 annually and carry an effective interest rate of 2.58%.

The City previously 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%.

The City previously entered into an agreement with SunTrust Equipment Finance & Leasing Corp. in 2005 totaling $5,183,559 to replace its water meter system and for various facility improvements. The agreement is for a fifteen 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:

Asset:	Water & Sewer	Governmental Activities	Total
Motor vehicles	$1,161,946	$ 3,560,208	$ 4,722,154
Machinery & equipment	6,284,952	3,851,162	10,136,114
Less: Accumulated Depreciation	(4,932,409)	(3,936,761)	(8,869,170)
Total	$2,514,489	$ 3,474,609	$ 5,989,098

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 & Sewer	Governmental Activities	Total
2018	$ 930,270	$ 837,088	$ 1,767,358
2019	930,270	837,088	1,767,358
2020	763,740	566,866	1,330,606
2021	201,942	268,739	470,681
2022	91,357	268,777	360,134
2023-2025	-	685,860	685,860
Total minimum lease payments	$ 2,917,579	$ 3,464,418	$ 6,381,997
Less: amount representing interest	(143,955)	(231,079)	(375,034)
Present Value of minimum lease payments	$ 2,773,624	$ 3,233,339	$ 6,006,963

Special Assessment Bonds

The City also issued special assessment debt in 2017 to provide funds for the cost of acquisition and construction of certain improvement projects and related debt issuance reserves and costs pertaining to the South Improvement Area of the Bayside Public Improvement District. These bonds will be repaid from amounts levied against property owners benefitted by this construction. Those amounts, including interest are 100 percent pledged to pay the scheduled principal and interest payments on the special assessment bonds. The bonds are secured by and payable from a first lien on and pledge of the Trust Estate. The bonds have a stated rate of interest of 6.68% and are payable over the next 30 years.

	Sale Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding
South	9/18/2017	$ 36,450,000	6.68%	9/15/2047	$36,450,000
North	3/15/2016	13,515,000	4.90% - 6.00%	9/15/2046	13,515,000

PENSION FUND

Plan Description – The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided - TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to 100% of what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

The City can grant, as often as annually, another type of monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, the City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	50% of CPI repeating

The City does not participate in Social Security.

EMPLOYEES COVERED BY BENEFIT TERMS

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currrently receiving benefits	202
Inactive employees entitled to but not yet receiving benefits	246
Active employees	363
Total	811

CONTRIBUTIONS

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.42% and 13.00% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ending September 30, 2017, were $2,973,731, and were equal to the required contributions.

NET PENSION LIABILITY:

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

DISCOUNT RATE:

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

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CHANGES IN NET PENSION LIABILITY

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/15	$ 109,276,239	$ 94,377,526	$ 14,898,713
Changes for the year:			
Service Cost	3,690,762	-	3,690,762
Interest	7,372,900	-	7,372,900
Difference between expected and actual experience	71,676	-	71,676
Changes of assumption	-	-	-
Contributions-employer	-	2,763,065	(2,763,065)
Contributions-employee	-	1,557,284	(1,557,284)
Net investment income	-	6,379,417	(6,379,417)
Benefit payments, including refunds of emp. contributions	(3,786,938)	(3,786,938)	-
Administrative expense	-	(72,034)	72,034
Other changes	-	(3,881)	3,881
Net changes	7,348,400	6,836,913	511,487
Balance at 12/31/16	$ 116,624,639	$ 101,214,439	$ 15,410,200

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net penison liability	$ 33,314,452	$ 15,410,200	$ 871,615

PENSION PLAN FIDUCIARY NET PENSION

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of $4,837,839.

At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual ecomonic experience	$ 193,536	$ (363,225)
Changes in actuarial assumptions	746,837	-
Difference between projected and actual investment earnings	4,266,790	-
Contributions subsequent to the measurement date	2,303,739	-
Total	$ 7,510,902	$ (363,225)

$2,303,739 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the City's financial statements September 30, 2018).

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year ended December 31:	
2017	$ 1,626,028
2018	1,772,164
2019	1,441,765
2020	3,981
Total	$ 4,843,938

Other Post-Employment 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.

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:

	Fiscal Year Ended September 30,		
	2017	2016	2015
Annual Required Contribution (ARC)	$ 348,986	$ 343,829	$ 414,569
Interest on Net OPEB Obligation	103,058	105,544	61,392
Adjustment to the ARC	(110,510)	(110,860)	(56,879)
Annual OPEB Cost	$ 341,534	$ 338,513	$ 419,082
Employer contribution	(415,992)	(375,342)	(219,730)
Increase in Net OPEB Obligation	$ (74,458)	$ (36,829)	$ 199,352
Net OPEB Obligation, beginning of year	1,526,791	1,563,620	1,364,268
Net OPEB Obligation, ending of year	$ 1,452,333	$ 1,526,791	$ 1,563,620

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 follow:

Fiscal Year Ended	OPEB Cost	Employer Contribution	Percentage Contribution	OPEB Obligation
9/30/2015	$ 419,082	$ 219,730	52.43%	$1,563,620
9/30/2016	338,513	375,342	110.88%	1,526,791
9/30/2017	341,534	415,992	121.80%	1,452,333

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Fiscal Year	Covered Payroll
12/31/2013	$ -	$3,432,848	$3,432,848	0.00%	2015	$21,685,946
12/31/2015	228,273	3,309,891	3,081,618	6.90%	2016	22,428,002
12/31/2015	228,273	3,309,891	3,081,618	6.90%	2017	23,115,523

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, 2013	December 31, 2015
Actuarial Cost Method	Projected Unit Credit	Entry Age
Amortization Method	Level Percent of Payroll	Level Percent of Payroll
Remaining Amortization Period	30 Years; Open	24 Years; Open
Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment Rate of Return	4.5%	6.75%
Payroll Growth Rate	3.0%	1.5%
General Inflation Rate	3.0%	2.5%

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FINANCIAL INFORMATION

TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Ad Valorem Taxes	$ 20,852,304	$ 20,154,821	$ 17,898,766	$ 15,763,186	$ 15,348,420
Franchise Taxes	2,854,143	2,976,337	3,169,838	3,017,032	2,895,572
Municipal Sales Taxes	6,962,527	6,786,736	6,064,718	5,717,857	5,443,952
Permits and Fees	1,161,674	1,263,927	946,609	649,638	466,153
Charge for Services	3,553,951	3,007,143	2,784,430	2,612,512	2,644,415
Municipal Court	944,360	892,195	989,676	1,097,151	963,059
Intergovernmental	233,355	243,541	224,099	220,129	205,579
Interest Income	86,565	70,625	33,035	28,761	20,058
Miscellaneous	1,309,352	1,105,566	1,253,851	1,338,761	1,324,679
Total Revenues	$ 37,958,231	$ 36,500,891	$ 33,365,022	$ 30,445,027	$ 29,311,887
Expenditures:					
General Government	$ 4,051,450	$ 3,371,614	$ 3,259,924	$ 3,203,660	$ 2,448,346
Public Works	2,395,039	2,811,720	2,624,902	2,895,087	2,874,972
Public Safety	19,972,165	20,314,704	20,231,667	18,884,392	17,902,071
Culture & Recreation	4,748,815	4,590,530	4,498,803	4,332,503	4,282,981
Development	3,260,438	2,154,699	1,584,360	1,227,382	1,128,814
Debt Service	1,132,094	1,296,705	982,925	794,354	728,888
Capital Outlay	526,059	1,659,338	4,171,831	1,174,975	1,575,953
Total Expenditures	$ 36,086,060	$ 36,199,310	$ 37,354,412	$ 32,512,353	$ 30,942,025
Excess (Deficiency) of Revenues Over Expenditures	$ 1,872,171	$ 301,581	$ (3,989,390)	$ (2,067,326)	$ (1,630,138)
Capital Lease	0	165,354	2,141,763	1,959,204	1,130,985
Operating Transfers In (Out)	(2,413,728)	286,422	548,101	710,101	192,899
Proceeds from Sale of Assets	1,417,865	8,695	669,600	-	-
Net Increase (Decrease)	876,308	762,052	(629,926)	601,979	(306,254)
Beginning Fund Balance	7,909,934	7,147,882	7,777,808	7,175,829	7,482,083
Ending Fund Balance	$ 8,786,242	$ 7,909,934	$ 7,147,882	$ 7,777,808	$ 7,175,829

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TABLE 13A – CHANGE IN NET ASSETS

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Program Revenues:					
Charges for Services	$ 6,538,877	$ 6,540,773	$ 6,471,911	$ 5,331,793	$ 5,309,333
Operating Grants and Contributions	1,135,141	2,035,858	520,843	418,983	817,022
Capital Grants and Contributions	7,722,894	1,851,705	1,715,530	3,878,487	6,735,636
General Revenues:					
Property Taxes	29,725,260	27,486,731	25,608,764	23,307,395	23,290,763
Sales Taxes	6,869,068	6,705,320	5,995,488	5,652,848	5,386,679
Other Taxes	185,868	175,204	146,741	130,138	112,300
Other	3,005,412	3,145,738	3,344,410	3,126,943	3,010,969
Investments & Miscellaneous	1,684,225	2,697,813	2,074,613	1,639,246	1,503,007
Total Revenues	$ 56,866,745	$ 50,639,142	$ 45,878,300	$ 43,485,833	$ 46,165,709
Expenses:					
General Government	$ 4,009,554	$ 8,661,210	$ 3,812,283	$ 3,743,246	$ 3,079,438
Public Safety	23,615,382	23,496,850	21,682,963	20,994,087	19,791,298
Public Works	10,948,955	10,171,825	12,001,156	12,040,271	11,690,444
Culture and Recreation	5,689,940	5,517,845	5,210,607	5,152,775	5,100,405
Development	3,531,966	2,364,074	1,586,203	1,230,969	1,183,670
Interest on Long-Term Debt	2,313,657	2,312,864	2,731,650	3,407,157	2,848,832
Total Expenses	$ 50,109,454	$ 52,524,668	$ 47,024,862	$ 46,568,505	$ 43,694,087
Increase in Net Assets Before Transfers	6,757,291	(1,885,526)	(1,146,562)	(3,082,672)	2,471,622
Transfers	2,481,361	3,353,436	4,441,008	4,366,169	4,448,300
Decrease/Increase in Net Assets	9,238,652	1,467,910	3,294,446	1,283,497	6,919,922
Net Assets, October 1	55,673,923	54,206,013	50,911,567 (1)	53,470,523	46,550,601
Prior Period Adjustment	-	-	-	-	-
Net Assets, September 30	$ 64,912,575	$ 55,673,923	$ 54,206,013	$ 54,754,020	$ 53,470,523

(1) Restated.

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TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.S., Tax Code, Chapter 321, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; **the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds.** Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

FYE 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	$ 5,652,848	24.50%	$ 0.1814	$ 96.67
2015	5,995,488	23.68%	0.1831	99.92
2016	6,705,320	24.53%	0.1869	111.32
2017	6,869,068	23.26%	0.1746	110.79
2018	3,440,628 (1)	10.62%	0.0785	55.49

(1) Collections through May 2018.

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 25%, and Water and Sewer Fund operating reserve cash balance of at least 90 days of net operating expense. 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 annual transfers are made from the enterprise funds (generally, the water and sewer departments) to the General Fund. The transfers consist of:

General and Administrative: A set fee is transferred to the General Fund for services of general overhead, such as administration, finance, personnel, data processing and legal counsel.

Franchise Payment in Lieu of Tax: A rate of 5% of gross sales is transferred to the General Fund, consistent with the rates charged to private utilities operating within the City.

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, including particularly V.T.C.A., Texas Government Code, Chapter 2256, as amended (the "PFIA"), 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 of the United States or its agencies and instrumentalities, including letters of credit; (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 and interest of which is 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 (the "FDIC") 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) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) 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 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States 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; (9) 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; (10) securities lending programs if (i) the value of 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 (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name 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; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and, (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, either (i) has a duration of one year or more and is invested exclusively in obligations described in this paragraph or (ii) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, and invest exclusively in obligations described in this paragraph. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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 “AAA-m” or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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.

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 includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act.

All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) market ability of each investment, (5) diversification of the portfolio, and (6) yield. The City is required to designate one or more officers or employees as investment officers to be responsible for the investment of its funds. In the administration of the duties of an investment officer, the person so designated shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, or manage in any other manner the funds of the City.

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 for the period. The report must: (1) describe the investment position of the City, (2) be prepared jointly and signed by each investment officer, (3) contain a summary of each pooled fund group that states: the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) state the book value and market value of each separately listed asset at the end of the reporting period, (5) state the maturity date of each separately invested asset, (6) state the account or pooled fund group for which each individual investment was acquired, and (7) state the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of Bonds of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council. No person may invest City funds without express written authority from the City Council.

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 City to disclose the relationship and file a statement with the Texas Ethics Commission and the City; (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 treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

The City's current investment policy is in compliance with the State law requirements described above.

TABLE 15 - CURRENT INVESTMENTS

As of April 30, 2018, the City's investable general funds were invested in the following categories:

Description	Book Value	% of Investment	Market Value	% of Investment
Commercial Paper	$ 1,940,532	3.17%	$ 1,939,684	3.18%
U.S. Treasury Bond/Note	8,134,478	13.29%	8,016,489	13.14%
Federal Agency Bond/Note	4,200,294	6.86%	4,123,189	6.76%
TexPool	46,937,672	76.68%	46,937,672	76.93%
Total	$ 61,212,976	100.00%	$ 61,017,034	100.00%

TAX MATTERS

OPINION . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, 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 Opinion.

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 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 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 City with respect to the Bonds or the property financed 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 City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bond 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 Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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 Bond bears to the number of days between the acquisition date and the final maturity date.

INFORMATION REPORTING AND BACKUP WITHHOLDING…Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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.

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CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered 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 events to the Municipal Securities Rulemaking Board ("*MSRB*"). This information will be publicly available on the MSRB's Electronic Municipal Market Access System ("*EMMA*") at http://emma.msrb.org/.

ANNUAL REPORTS. . . The City will provide certain updated financial information and operating data to the MSRB 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 6 and 8 through 15 and in Appendix B, which is the City's annual audited financial report. The City will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2018 and, if not submitted as part of such annual financial information, the City will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B 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, the City must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

EVENT NOTICES . . . The City will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of any trustee, if material. (Neither the Bonds nor the Ordinance makes any provision for a bond trustee, debt service reserves or credit enhancement.)

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 registered and beneficial owners of the Bonds. The

City may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule 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.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax supported debt of the City are rated "Aa2" 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 companies furnishing the ratings. The ratings reflect only the view of such companies 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 of such 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 operations.

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 other 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Texas Public Funds Investment Act requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "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 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 to the Initial Purchaser 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. 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. Though it may represent the Financial Advisor and purchasers of bonds, such as the Initial Purchaser, 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. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. 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 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. 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.

FINANCIAL ADVISOR

Hilltop Securities Inc., 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. The Financial Advisor has agreed, in its Financial Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, has not verified and 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.

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.

INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of UBS Financial Services Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on page 2 of this Official Statement at a price of $20,113,732.40. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The initial yields shown on page 2 of this Official Statement will be established by and are the sole responsibility of the Initial Purchaser and may subsequently be changed at the sole discretion of the Initial Purchaser. The City has no control over the determination of the initial yields and has no control over the prices at which the Bonds are sold in the secondary market.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, the City will furnish the Initial Purchaser a certificate, executed by an authorized representative of the City, acting in such person's representative capacity, to the effect that to the best of such person's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of the Official Statement, on the date of sale of the Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, the Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading in any material respect; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

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 Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Initial Purchaser.

TAMMY DANA-BASHIAN
Mayor
City of Rowlett, Texas

ATTEST:

LAURA HALLMARK
City Secretary
City of Rowlett, Texas

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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 President George Bush Turnpike (Tollway), Interstate 30 and 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 four 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 2018 population of the City is 61,999.

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 79 full-time sworn police officers and 12 dispatchers. The fire department employs 71 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 78,518 volumes, circulating video and large print collections, newspapers, children's summer reading program and adult programming.

Rowlett offers one hospital, Baylor Scott & White Medical Center – Lake Pointe. The 112-bed acute care hospital provides a wide range of medical specialties and services, including a Fast Track Emergency Department, intensive care unit, women's services, Level II and Level III NICU, interventional cardiology, diagnostic imaging, robotic-assisted surgery, orthopedics, vascular surgery, neurosurgery and urology.

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 City also offers a Wet Zone Family Water Park, open through the summer months, hosting daily open swim hours, classes, programs and special events. 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. In May 2015, the City acquired Elgin B. Robertson Park from the City of Dallas. This property extends the southern border of the lake and is traversed by Interstate 30. 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.

BUILDING PERMITS

Fiscal Year	Commercial		Residential	
Ended 9/30	Number	Amount	Number	Amount
2014	7	$ 10,775,000	112	$ 33,477,000
2015	13	21,502,400	170	110,324,167
2016	12	28,105,016	273	91,595,217
2017	16	69,999,320	173	64,387,544
2018 (1)	10	17,528,258	119	82,800,363

(1) As of April 30, 2018.

PRINCIPAL EMPLOYERS

Employer	Number of Employees
Garland ISD (City schools only)	996
Baylor Scott & White Medical Center	840
Wal-mart Supercenter	396
City of Rowlett	414
DR Horton	250
Target Corporation	175
Tom Thumb	135
Senior Care at Lake Pointe	130
DHI Mortgage	70
H&S Manufacturing/Walmart Neighborhood Market	65
	3,471

Source: City of Rowlett – Economic Development Department.

EMPLOYMENT RATES

Employment statistics for Dallas and Rockwall Counties are as follows:

	2018 Annual Average(1)	2017 Annual Average	2016 Annual Average	2015 Annual Average	2014 Annual Average
Dallas County					
Civilian Labor Force	1,364,927	1,333,933	1,296,258	1,261,721	1,250,984
Total Employment	1,313,332	1,282,785	1,244,191	1,207,803	1,183,245
Unemployed	51,596	51,148	52,065	53,918	67,739
Percent Unemployed	3.78%	3.83%	4.02%	4.27%	5.41%
Rockwall County					
Civilian Labor Force	49,774	48,621	47,263	44,862	43,416
Total Employment	48,135	47,011	45,608	43,181	41,458
Unemployed	1640	1,610	1655	1681	1958
Percent Unemployed	3.29%	3.31%	3.50%	3.75%	4.51%

Source: Texas Employment Commission, Austin, Texas.
(1) Averages as of April 2018.

APPENDIX B

EXCERPTS FROM THE

CITY OF ROWLETT, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Rowlett, Texas Annual Financial Report for the Year Ended September 30, 2017, 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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Independent Auditor's Report

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

Report on the Financial Statements

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 the City of Rowlett, Texas (the City), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

AN INDEPENDENT MEMBER OF BAKER TILLY INTERNATIONAL
WEAVER AND TIDWELL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS
12221 MERIT DRIVE, SUITE 1400, DALLAS, TX 75251
P: 972.490.1970 F: 972.702.8321

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, other supplementary information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2018, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell LLP

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
February 8, 2018

Rowlett
TEXAS

Management's Discussion and Analysis

Management's Discussion and Analysis

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, 2017. 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 and deferred outflows of the City exceeded its liabilities and deferred inflows as of September 30, 2017 by $152 million (net position). Of this amount, $129 million (85%) is net investment in capital assets and $7 million (5%) is restricted for specific purposes. The remaining $16 million (10%) is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's net position of governmental activities increased by $9 million. Property tax revenues are higher over the prior year by $2 million as a result of higher assessed property values. Capital grants and contributions exceeded prior year by $6 million, primarily due to contributions related to the Bayside development. Expenses decreased by $2 million primarily due to the prior year's costs of the December 2015 tornado.
- As of September 30, 2017, the City's governmental funds reported combined ending fund balances of $41 million, an increase of $12 million when compared to the prior year. With expenditures exceeding revenues by $4 million, this increase was primarily due to $11 million in net bond issuance activity sources and $2 million of net transfers in. Within total fund balance, $25 million (61%) is restricted by specific legal requirements, $8 million (20%) is assigned to specific types of expenditures, and $0.2 million (1%) is non-spendable as it relates to prepaids and inventories. The remainder of the fund balance, $7 million (18%), is unassigned in the general and special revenue funds. The $7 million unassigned fund balance in the general fund is approximately 21% of total general fund expenditures.
- The City's outstanding debt increased $1 million, consisting of the issuance of $11 million in general obligation debt offset by existing debt retirements.

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 position presents information on all of the City's assets and deferred outflows, and liabilities and deferred inflows with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City of Rowlett is improving or deteriorating. The statement of net position combines and consolidates governmental and business type 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 position 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).

In the statement of net position and the statement of activities, the City is divided into two types of activities:

- Governmental activities – Most of the City's basic services are reported here, including the police, fire, libraries, community development, recreation operations, public works, 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 fund 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.

The government-wide financial statements can be found on pages 23-25 of this report.

Fund Financial Statements – A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be used in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Rowlett maintains twelve individual governmental funds. 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 nine governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental funds financial statements can be found on pages 26-29 of this report.

Proprietary funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations, refuse services and municipal drainage. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its self-insurance program.

Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary 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, Refuse, and Drainage funds, since they are all considered to be major funds of the City. The internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 30-34 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 35-36 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 37-71 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and health benefits to its employees and retirees.

The required supplementary information can be found on pages 73-78 of this report.

The combining statements referred to earlier, in connection with nonmajor governmental funds, are presented immediately following the required supplementary information.

Other supplementary combining and individual fund statements and schedules can be found on pages 79-94 of this report.

Government-Wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. The City's combined net position was $152 million as of September 30, 2017.

CITY OF ROWLETT'S NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 47,064	$ 35,662	$ 19,822	$ 20,096	$ 66,886	$ 55,758
Capital assets	108,041	104,838	106,592	104,794	214,633	209,632
Total assets	155,105	140,500	126,414	124,890	281,519	265,390
Deferred outflows	8,682	10,382	2,201	2,509	10,883	12,891
Current liabilities	4,620	4,672	2,787	3,051	7,407	7,723
Noncurrent liabilities	93,918	89,965	38,277	43,248	132,195	133,213
Total liabilities	98,538	94,637	41,064	46,299	139,602	140,936
Deferred inflows	337	571	26	47	363	618
Net position:						
Net investment in capital assets	56,615	49,737	72,740	67,798	129,355	117,535
Restricted	3,372	2,815	3,734	3,841	7,106	6,656
Unrestricted	4,925	3,122	11,051	9,414	15,976	12,536
Total net position	$ 64,912	$ 55,674	$ 87,525	$ 81,053	$ 152,437	$ 136,727

By far, the largest portion of the City's net position (85%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure) less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens.

Accordingly, 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.

An additional portion of the City's net position (5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (10%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true in the prior fiscal year.

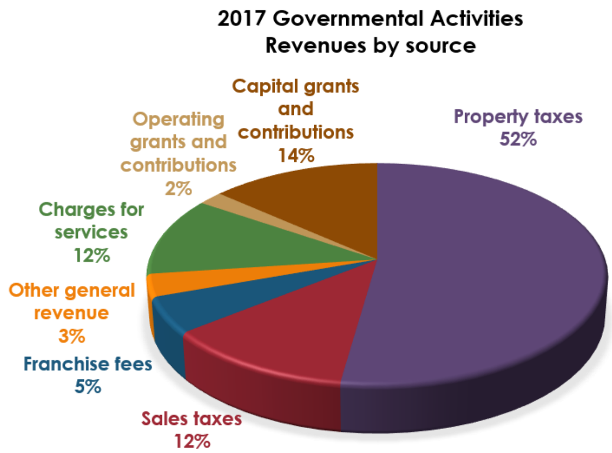
The City of Rowlett's overall net position increased by $15.7 million during the current fiscal year. Details are listed below and discussed on pages 11-13.

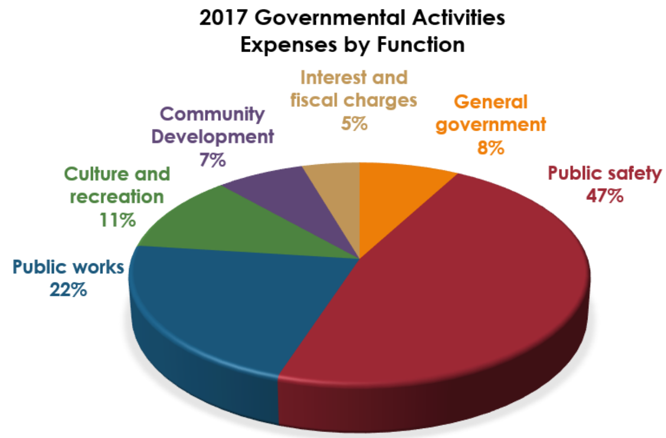
CITY OF ROWLETT'S CHANGES IN NET POSITION
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues						
Charges for services	$ 6,539	$ 6,541	$ 34,184	$ 32,793	$ 40,723	$ 39,334
Operating grants and contributions	1,135	2,036	-	-	1,135	2,036
Capital grants and contributions	7,723	1,852	5,102	7,203	12,825	9,055
General revenues						
Property taxes	29,725	27,487	-	-	29,725	27,487
Sales taxes	6,869	6,705	-	-	6,869	6,705
Other taxes	186	175	-	-	186	175
Franchise fees	3,005	3,146	-	-	3,005	3,146
Investment income	236	141	58	61	294	202
Gain on sale of assets	-	-	64	371	64	371
Other	1,449	2,557	273	13	1,722	2,570
Total revenues	56,867	50,640	39,681	40,441	96,548	91,081
Expenses						
General government	4,010	8,661	-	-	4,010	8,661
Public safety	23,615	23,497	-	-	23,615	23,497
Public works	10,949	10,172	-	-	10,949	10,172
Culture and recreation	5,690	5,518	-	-	5,690	5,518
Community development	3,532	2,364	-	-	3,532	2,364
Interest on long-term debt	2,314	2,313	-	-	2,314	2,313
Water and sewer	-	-	24,873	25,019	24,873	25,019
Refuse	-	-	3,998	3,835	3,998	3,835
Drainage	-	-	1,857	1,781	1,857	1,781
Total expenses	50,110	52,525	30,728	30,635	80,838	83,160
Increase (decrease) in net assets before transfers	6,757	(1,885)	8,953	9,806	15,710	7,921
Transfers	2,481	3,353	(2,481)	(3,353)	-	-
Increase in net position	9,238	1,468	6,472	6,453	15,710	7,921
Net position, beginning	55,674	54,206	81,053	74,600	136,727	128,806
Net position, ending	$ 64,912	$ 55,674	$ 87,525	$ 81,053	$ 152,437	$ 136,727

Governmental Activities

Governmental activities increased the City's net position by $9.2 million. Governmental activities net investment in capital assets increased $6.9 million, and restricted net position increased $0.6 million. Unrestricted net position increased $1.8 million as a result of operations.





Total revenues for governmental activities, exclusive of transfers, were $56.9 million in fiscal year 2017, up $6.2 million from the previous year. The most significant revenue source is property tax revenue which represents $29.7 million or 52% of the total. The key elements of the increase is as follows:

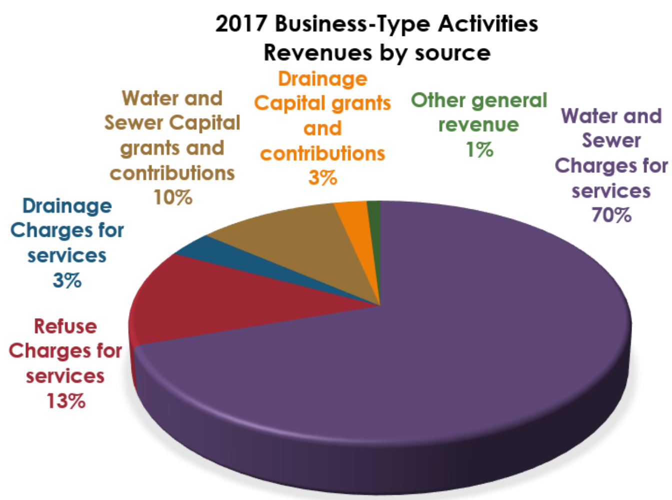
- In General Revenues, property taxes increased $2.2 million as a result of a 9.7% increase in certified taxable value over the prior year. Miscellaneous revenues decreased $1.1 million due to payments from insurance in response to the December 26, 2015 tornado in the prior year.

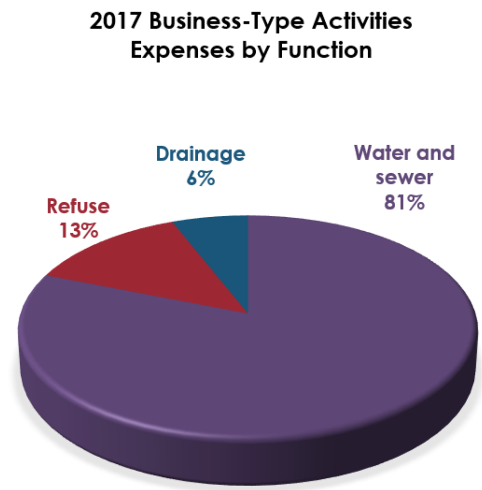
- In Program Revenues, capital grants and contributions increased $5.9 million primarily due to culture and recreation developer contributions for construction related to the Bayside development. Operating grants and contributions decreased $0.9 million as a result of the majority of the federal funding in response to the tornado in the prior year.

Overall, governmental activities expenses were $50.1 million in fiscal year 2017, down $2.4 million from the previous year primarily as a result of $3 million in tornado disaster recovery costs incurred in the prior year. The most significant governmental expense for the City is providing public safety for the community, which incurred expenses of $23.6 million, or 47% of total expenses. Public safety expenses are partially offset by revenues collected from a variety of sources, with the largest being from court fines totaling $0.9 million.

Business-type Activities

Business-type activities increased the City's net position by $6.5 million. Business type activities net investment in capital assets increased $4.9 million. Restricted net position decreased $0.1 million and unrestricted net position increased $1.6 million.





Revenues of the City's business-type activities were $39.7 million for the fiscal year ending September 30, 2017, down $0.8 million from the prior year. Total operating expenses for the City's business-type activities were $30.7 million, up $0.1 million when compared to the prior year. The breakdown of these fluctuations are as follows:

- The City's water and sewer system accounts for 70% of the business-type program revenues and 81% of the business-type expenses. The water and sewer activity operated with charges for services exceeding expenses by $2.8 million. Charges for services increased over the prior year by $1.1 million as a result of a 10% increase in usage rates. At $12.0 million, or 48% of total expenses, water supply and wastewater treatment costs are the most significant expense of this fund. The fund also received $3.3 million in developer contributions and $0.9 million in impact fees.

- The City's refuse activity operated with charges for services exceeding expenses by $1.1 million, consistent with prior year activity.

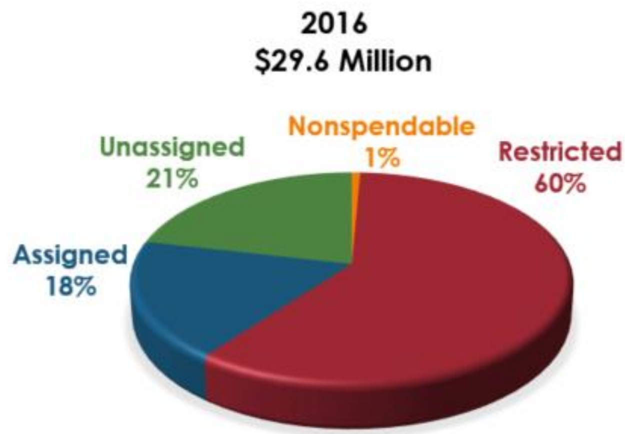
- The City's drainage activity operated with expenses exceeding charges for services by $0.5 million, consistent with the prior year. At 61% of total expenses, the largest cost to the drainage activity is depreciation, at $1.1 million for the current year.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds: The focus of the City'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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $41.2 million. Within this total, $0.2 million is non-spendable for prepaid and inventories, $25.3 million is restricted by specific legal requirements, such as by debt covenants, capital projects and specific purposes, and $8.3 million has been assigned to specific types of expenditures. The remainder of the fund balance, $7.5 million or 18%, constitutes unassigned fund balance of $7.8 million in the general fund that can be used for any lawful purpose, and a deficit fund balance of $0.3 million in the grant, TIF, and disaster special revenue funds. The fund balance for all governmental funds increased $11.6 million primarily due to the issuance of capital project bonds during the year.



The general fund is the chief operating fund of the City. The net change in fund balance for the general fund was an increase of $0.9 million for the current year. Key factors in this increase are as follows:

- Expenditures decreased slightly, by $0.1 million. Overall, current operating expenses increased $1.2 million, primarily due to a 3% across the board pay increase for all employees. This increase was offset by a $1.1 million decrease in capital outlay expenditures in the current year with the purchase of several vehicles and the completion of the financial system upgrade in the prior year.

- Revenues increased $1.5 million primarily due to increased property taxes based on higher certified taxable values, in addition to increased charges for services as a result of multiple large construction developments during the year. Sales tax collections increased as well.

- Other financing sources decreased $1.5 million mainly attributable to a budgeted change in transfers including the discontinuation of the PILOT transfer in from the water and sewer fund, and an increase in transfer out to fund capital projects. The City received $1.4 million in proceeds from the sale of land and transferred it to the capital projects fund for a future project.

The debt service fund has a total fund balance of $0.6 million, all of which is legally restricted for the payment of debt service. The fund balance increased over prior year by $0.5 million due to a $0.026750 increase in the allocation to the debt rate.

The capital projects fund has a total fund balance of $28.2 million, of which $28.1 million is restricted for the acquisition or construction of capital facilities and assets. The non-spendable amount of $43 thousand represents inventories. Fund balance increased $9.3 million over the prior year primarily due to the final debt issue of the May 2015 bond election, yielding $11.4 million in proceeds. The capital projects fund expended $6.9 million in fiscal year 2017, an increase of $1.2 million from 2016 expenditures, as the City added additional focus on street, alley and sidewalk projects.

Proprietary Funds: The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- Net position of the City's Water and Sewer fund is $65.2 million, of which $52.3 million is net investment in capital assets, $3.7 million is restricted for debt service, and $9.1 million is unrestricted. The fund's net position increased $6.0 million in the current year. As noted earlier in the discussion of business-type activities, charges for services increased over the prior year by $1.1 million as a result of a 10% increase in usage rates. Additionally, capital contributions related to the Bayside, Evergreen at Rowlett, Dalrock Crossing and Starbucks developments totaling $3.2 million and $0.9 million in impact fees were recorded. The water and sewer system expenses remained consistent with the prior year, at $24.2 million.

- Net position of the City's Refuse fund is $0.7 million, of which $24 thousand is net investment in capital assets and the remaining $0.6 million is unrestricted. Change in net position for the Refuse fund was an increase of $105 thousand.

- Net position of the City's Drainage fund is $21.7 million, of which $20.4 million is net investment in capital assets and $1.3 million is unrestricted. Net position for the Drainage fund increased $0.4 million as a result of increased capital contributions related to the Bayside development.

General Fund Budgetary Highlights

Original budget compared to final budget: During the year, Council approved a budget amendment recommended by staff, resulting in a $0.4 million decrease to the fund balance originally adopted. Specifically, revenue estimates were reduced by $0.4 million, including adjustments to property tax and miscellaneous revenues, and appropriations were reduced by $64 thousand. Additionally, the City had some insignificant adjustments, including reallocating appropriations among departments.

Final budget compared to actual results: For fiscal year 2017, actual revenues were $38.0 million compared to the final budget of $37.9 million. Property tax collections, franchise fees and license and permits came in lower than expected, but were offset by development related charges for services that exceeded expectations. Actual expenditures were $36.1 million compared to the final budget amount of $37.4 million primarily as a result of salary savings, the timing of the purchase of replacement vehicles, and unfinished projects at year end. Additionally, the City received unbudgeted proceeds from the sale of land, which was transferred to the Capital Projects fund for a future project. Fund balance at year end was $8.8 million, $1.3 million more than budgeted as a result of the aforementioned variances.

Capital Assets and Debt Administration

Capital Assets: The City's net investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to $215 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities, machinery, equipment, vehicles, roads, bridges, water and sewer lines, and construction in progress. The total increase in capital assets, net of accumulated depreciation, for the current fiscal year was $5.0 million or 2.4%.

Capital Assets at Year-End
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
Land	$ 29,488	$ 29,106	$ 1,010	$ 942	$ 30,498	$ 30,048
Buildings and improvements	17,548	18,141	584	615	18,132	18,756
Machinery and equipment	6,552	8,455	3,565	4,509	10,117	12,964
Infrastructure	39,738	42,576	83,860	88,124	123,598	130,700
Construction in progress	14,715	6,560	17,573	10,604	32,288	17,164
Total	$ 108,041	$ 104,838	$ 106,592	$ 104,794	$ 214,633	$ 209,632

This year's major construction projects completed and capital acquisitions included:

Miller Road/Rowlett Creek Bridge	$ 689,293
Wetzone Water Park Improvements	660,029
Edgewater Lift Station	609,864
Public Safety Training Center	482,046
SH66 @ PGBT Frontage Intersection	387,298
16" Water Line SH66 / Rowlett Road	384,311
Motor Vehicles	366,263
Rowlett Community Center Renovations	357,331
Bullit Training / Princeton Road to Liberty Grove	303,436
Evergreen - Developer Contribution	267,667
Dalrock Crossing - Developer Contribution	258,621
	$ 4,766,159

For more information related to capital assets, see Note 6 to the basic financial statements.

Long-Term Debt: At year-end, the City had $99.6 million in general obligation bonds, certificates of obligation, tax notes and revenue bonds outstanding as compared to $98.5 million at the end of the prior fiscal year, an increase of $1.1 million.

Outstanding Debt at Year End
(in thousands)

	Governmental Activities		Business-type Activities		Total Government	
	2017	2016	2017	2016	2017	2016
General obligation bonds (backed by the City)	$ 63,894	$ 58,867	$ 11,191	$ 12,693	$ 75,085	$ 71,560
Certificates of obligation and tax notes (backed by the City)	3,440	3,770	-	-	3,440	3,770
Revenue bonds (backed by fee revenues)	-	-	21,030	23,215	21,030	23,215
Total	$ 67,334	$ 62,637	$ 32,221	$ 35,908	$ 99,555	$ 98,545

During the current fiscal year, the City issued $10.9 million in new general obligation bonds, the third and final issuance of the 2015 bond referendum.

The City's general obligation bonds, certificates of obligation and tax anticipation notes carry Aa2 and AA ratings by Moody's Investor Service and Standard and Poor's, respectively. The City's water and sewer revenue bonds carry Aa3 and A+ by Moody's Investor Service and Standard and Poor's, respectively. As a result of water losses from the previous year's drought, and resulting decline in reserves, the City's bond rating was reduced to A+ from AA- from Standards and Poor's in FY2015. The City has begun to rebuild water and sewer reserves over fiscal years 2016 and 2017, and pledges to continue over the next fiscal year.

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 debt. 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.

More detailed information about the City's long-term liabilities is presented in Note 8 to the 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 2018 budget. Utilizing the Five Year Financial Strategy Plan and Five Year Capital Improvement Plan allows officials to plan the timing of projects so as to minimize the effects on the budget, tax rates, and fees that will be charged for the governmental and business-type activities. With the combination of improved tax values, new growth, and additional tax dollars, the fiscal year 2018 adopted budget includes funding priorities for economic development, aging infrastructure, revitalizing neighborhoods, and enhancing community services, amenities and assets to address the explosive growth that is to come. Additionally, the 2018 budget continues to aggressively rebuild reserves in the Utility Fund.

Revenue Projection Highlights:

The total FY2018 combined budget current revenue projections total $125 million.

- Property tax revenue is projected to reach $32.0 million, compared to FY2017's actual amount of $29.8 million. The adopted property tax rate was reduced by one cent for FY2018, set at $0.777173 per one hundred dollars of taxable valuation, with $0.551190 allocated to operations and maintenance and $0.225983 allocated to debt service. Certified property valuations increased by $449.2 million or 11.4% for FY2018. This increase is a result of improvements in appraised values, as well as new construction, investment and development that was added to the tax rolls through January 1, 2017.

- Sales tax revenue is projected to reach $7.2 million, compared to FY2017's actual amount of $6.9 million. Growth in new businesses and a general increase in existing retail sales are expected to continue through FY2018.

- General fund licenses and permits are projected at $1.2 million, a decrease of $0.3 million or 21.5% when compared to the FY2017 budget. This is a result of the timing of development permitting, and will continue to be volatile as large development drives this revenue.

- Enterprise fund charges for services are projected to reach $38.0 million, compared to FY2017's actual amount of $34.2 million. This represents a $2.6 increase in water and sewer and a $1.2 million increase in refuse revenues. The FY2018 projected revenues reflect the results of the City's recent water and sewer rate study, which includes adjustments to the base rate, volume rate, and rate structure, as detailed below:

Water Residential Customers Only	Adopted FY2017	Adopted FY2018	Adopted FY2017	Adopted FY2018
	Water		Sewer	
Beginning Base Rate	$31.26	$28.00	$17.83	$19.79
Volume Rate (0-3,000 gal)	$4.49	$4.35	$4.39	$4.87
Volume Rate (3001-15,000 gal)	N/A	$5.44	Rates are same per 1,000 gal	
Volume Rate (15,001 gal +)	N/A	$6.80	Rates are same per 1,000 gal	
Total Monthly Fee @10,000 gal	$76.16	$79.13	$61.73	$68.49

Appropriation Budget Highlights:

The total FY2018 combined budget appropriations total $124.4 million.

- Expenses in the general fund are projected to be $43.3 million in FY2018. This is a projected increase of $1.6 million or 3.8% when compared to the FY2017 budget of $41.7 million. The majority of the increase is driven by personnel costs, as a result of implementing the 2017 Compensation Study and the continuation of step-pay plan increases for Fire and Police personnel. Capital equipment costs are projected to decrease by $0.7 million primarily attributable to vehicle and equipment replacement costs that will be included in the first year of the Vehicle and Equipment Replacement Fund (VERF) in FY2018.

Overall changes are summarized below.

General Fund Expenses	Revised FY2017	Adopted FY2018	$ Change	% Change
Personnel	$27,391,847	$29,497,273	$2,105,426	7.70%
Supplies	2,175,738	1,860,834	($314,904)	-14.50%
Purchased Services	8,468,093	8,643,356	$175,263	2.00%
Capital Equipment	861,750	171,500	($690,250)	-80.10%
Transfers to Other Funds	2,763,022	3,090,945	$327,923	11.90%
Total	**$41,660,450**	**$43,263,908**	**$1,603,458**	**3.80%**

- The FY2018 water and sewer fund budget totals $29.8 million, representing an increase of $3.0 million or 11.0% from the FY2017 budget of $26.8 million. This increase is the result of a $1.4 million rise in the cost for water delivery and wastewater treatment, as well as a $1.3 million increase in the transfer to the Water & Sewer Capital Fund for investment in the collection and delivery systems. These increases will address the growing needs of an expanding community.

  Overall changes are summarized below:

Utility Fund Expenses	Revised FY2017	Adopted FY2018	$ Change	% Change
Personnel	$2,514,886	$2,615,177	$100,291	4.00%
Water/Sewer Contract Services	12,249,708	13,644,364	1,394,656	11.40%
Other Purchase Services and Supplies	2,611,492	2,518,973	($92,519)	-3.50%
Debt Service	4,497,705	4,500,000	2,295	0.10%
Capital Improvements	197,730	45,000	($152,730)	-77.20%
Transfers to Other Funds	4,758,522	6,473,593	1,715,071	36.00%
Total	**$26,830,043**	**$29,797,107**	**$2,967,064**	**11.00%**

- In the Self Insurance Fund, FY2018 expenses are budgeted to increase 12% to $5.6 million to cover the rise in individual stop loss premiums caused by large claims over the last three years, as well as an anticipated increase in benefit payments. Accordingly, the revenue budget was increased almost 11%, to $5.8 million. Currently, the City contributes approximately 83% to the revenues of this fund, and employees/retirees contribute approximately 17%.

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.

Basic Financial Statements

Rowlett
TEXAS

City of Rowlett, Texas
Statement of Net Position
September 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash, cash equivalents and investments	$ 42,852,365	$ 13,712,227	$ 56,564,592
Receivables (net of allowance for doubtful accounts)	3,305,909	5,517,000	8,822,909
Due from other governments	522,762	10,000	532,762
Notes receivable	-	30,917	30,917
Inventories	109,302	528,166	637,468
Prepaid and other items	273,507	23,596	297,103
Capital assets:			
Nondepreciable	44,203,151	18,582,780	62,785,931
Depreciable (net)	63,838,329	88,009,696	151,848,025
Total assets	155,105,325	126,414,382	281,519,707
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	1,734,021	1,637,922	3,371,943
Deferred outflow of resources - TMRS	6,948,109	562,793	7,510,902
Total deferred outflows of resources	8,682,130	2,200,715	10,882,845
LIABILITIES			
Accounts payable and accrued liabilities	3,850,625	1,867,480	5,718,105
Accrued interest payable	406,900	139,418	546,318
Retainage payable	189,716	75,085	264,801
Customer deposits	-	705,127	705,127
Unearned revenues	172,426	-	172,426
Noncurrent liabilities:			
Due within one year	8,035,527	4,413,208	12,448,735
Due in more than one year:	85,882,793	33,864,137	119,746,930
Total liabilities	98,537,987	41,064,455	139,602,442
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow of resources - TMRS	336,893	26,332	363,225
Total deferred inflows of resources	336,893	26,332	363,225
NET POSITION			
Net investment in capital assets	56,614,842	72,739,710	129,354,552
Restricted for:			
Debt service	279,683	3,734,307	4,013,990
Capital projects	1,738,201	-	1,738,201
Public safety	897,855	-	897,855
Economic development	71,121	-	71,121
Public broadcasting	384,721	-	384,721
Unrestricted	4,926,152	11,050,293	15,976,445
Total net position	$ 64,912,575	$ 87,524,310	$ 152,436,885

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement Of Activities
For the Fiscal Year Ended September 30, 2017

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 4,009,554	$ 57,609	$ -	$ -
Public safety	23,615,382	2,310,649	1,135,141	466,888
Public works	10,948,955	1,018,438	-	3,347,558
Culture and recreation	5,689,940	1,021,800	-	3,908,448
Community Development	3,531,966	2,130,381	-	-
Interest and fiscal charges	2,313,657	-	-	-
Total governmental activities	50,109,454	6,538,877	1,135,141	7,722,894
Business-type activities:				
Water and sewer	24,873,275	27,688,606	-	4,133,760
Refuse	3,997,901	5,139,251	-	-
Drainage	1,856,605	1,356,154	-	968,046
Total business-type activities	30,727,781	34,184,011	-	5,101,806
Total primary government	$ 80,837,235	$ 40,722,888	$ 1,135,141	$ 12,824,700

General revenues:
Taxes:
Property taxes
Sales taxes
Other
Franchise fees
Investment earnings
Gain on sale of assets
Miscellaneous
Transfers (net)
Total general revenues and transfers

Change in net position

Net position, beginning

Net position, ending

The Notes to the Financial Statements are an integral part of this statement.

Net Revenues (Expenses) and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (3,951,945)	$ -	$ (3,951,945)
(19,702,704)	-	(19,702,704)
(6,582,959)	-	(6,582,959)
(759,692)	-	(759,692)
(1,401,585)	-	(1,401,585)
(2,313,657)	-	(2,313,657)
(34,712,542)	-	(34,712,542)
-	6,949,091	6,949,091
-	1,141,350	1,141,350
-	467,595	467,595
-	8,558,036	8,558,036
$ (34,712,542)	$ 8,558,036	$ (26,154,506)
29,725,260	-	29,725,260
6,869,068	-	6,869,068
185,868	-	185,868
3,005,412	-	3,005,412
236,481	58,485	294,966
-	64,273	64,273
1,447,744	271,718	1,719,462
2,481,361	(2,481,361)	-
43,951,194	(2,086,885)	41,864,309
9,238,652	6,471,151	15,709,803
55,673,923	81,053,159	136,727,082
$ 64,912,575	$ 87,524,310	$ 152,436,885

City of Rowlett, Texas
Balance Sheet
Governmental Funds
September 30, 2017

	Governmental Fund Types				
	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash, cash equivalents and investments	$ 8,411,345	$ 547,847	$ 29,573,871	$ 4,040,718	$ 42,573,781
Receivables (net of allowance for uncollectibles):					
Taxes	1,510,389	138,546	-	7,575	1,656,510
Accounts	515,870	-	-	-	515,870
Accrued interest	5,220	190	16,128	2,257	23,795
Other	1,052,626	-	-	38,734	1,091,360
Due from other governments	-	-	-	522,762	522,762
Due from other funds	262,610	-	27,133	-	289,743
Inventories	65,823	-	43,479	-	109,302
Prepaid and other items	73,499	8,401	-	3,240	85,140
Total assets	$ 11,897,382	$ 694,984	$ 29,660,611	$ 4,615,286	$ 46,868,263
LIABILITIES					
Accounts payable	$ 984,444	$ -	$ 1,180,626	$ 62,302	$ 2,227,372
Retainage payable	-	-	175,184	14,532	189,716
Accrued liabilities	1,108,458	-	2,992	26,478	1,137,928
Unearned revenue	1,211	-	141,319	29,896	172,426
Due to other funds	-	-	-	289,743	289,743
Total liabilities	2,094,113	-	1,500,121	422,951	4,017,185
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	313,972	138,546	-	-	452,518
Unavailable revenue - ambulance fees	243,646	-	-	-	243,646
Unavailable revenue - mowing liens	272,226	-	-	-	272,226
Unavailable revenue - franchise fees	171,957	-	-	-	171,957
Unavailable revenue - grants	-	-	-	471,309	471,309
Unavailable revenue - other	15,226	-	-	673	15,899
Total deferred inflows of resources	1,017,027	138,546	-	471,982	1,627,555
FUND BALANCES					
Fund balances:					
Nonspendable:					
Inventories	65,823	-	43,479	-	109,302
Prepaid items	73,499	8,401	-	3,240	85,140
Restricted for:					
Debt service	-	548,037	-	-	548,037
Capital projects	48,753	-	20,631,026	3,146,304	23,826,083
Public safety	-	-	-	425,873	425,873
Economic development	-	-	-	71,121	71,121
Public broadcasting	-	-	-	384,721	384,721
Assigned for:					
Economic development	803,104	-	-	-	803,104
Capital acquisition	1,987	-	7,485,985	-	7,487,972
Unassigned	7,793,076		-	(310,906)	7,482,170
Total fund balances	8,786,242	556,438	28,160,490	3,720,353	41,223,523
Total liabilities and fund balances	$ 11,897,382	$ 694,984	$ 29,660,611	$ 4,615,286	$ 46,868,263

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Reconciliation of the Balance Sheet
Of Governmental Funds to the Statement of Net Position
September 30, 2017

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

Total fund balances per balance sheet - governmental funds		$ 41,223,523
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		108,041,480
Certain revenues are not available soon enough to pay for the current period's expenditures and are, therefore, reported as deferred inflows of resources.		1,627,555
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities at year end consist of:		
General obligation bonds and certificates of obligation payable	(67,333,994)	
Bond premiums	(4,681,208)	
Deferred charges on refunding	1,734,021	
Accrued interest	(406,900)	
Capital leases payable	(3,233,339)	
Net pension liability	(14,172,585)	
Other post-employment benefits liability	(1,296,850)	
Compensated absences	(3,200,344)	
		(92,591,199)
Deferred outflows of resources and deferred inflows of resources related to pensions are not reported in the fund financial statements.		6,611,216
Net position of governmental activities		$ 64,912,575

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Revenues, Expenditures
And Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended September 30, 2017

	Governmental Fund Types				
	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes:					
Property taxes	$ 20,852,304	$ 8,929,064	$ -	$ -	$ 29,781,368
Sales taxes	6,869,068	-	-	-	6,869,068
Other	93,459	-	-	92,409	185,868
Franchise fees	2,854,143	-	-	154,658	3,008,801
License and permits	1,161,674	-	-	1,018,438	2,180,112
Charge for services	3,553,951	-	-	-	3,553,951
Fines and forfeitures	944,360	-	-	176,776	1,121,136
Intergovernmental	233,355	-	405,172	945,096	1,583,623
Interest	86,565	12,106	119,806	18,004	236,481
Miscellaneous	1,309,352	-	-	138,392	1,447,744
Total revenues	37,958,231	8,941,170	524,978	2,543,773	49,968,152
EXPENDITURES					
Current operating:					
General government	4,051,450	118,490	-	333,077	4,503,017
Public safety	19,972,165	-	-	775,494	20,747,659
Public works	2,395,039	-	2,683,727	-	5,078,766
Culture and recreation	4,748,815	-	-	71,065	4,819,880
Community development	3,260,438	-	-	-	3,260,438
Debt service:					
Principal retirement	1,038,218	6,232,959	-	-	7,271,177
Interest and fiscal charges	93,876	2,544,673	-	-	2,638,549
Bond issuance costs	-	-	176,721	-	176,721
Capital outlay	526,059	-	4,078,162	552,038	5,156,259
Total expenditures	36,086,060	8,896,122	6,938,610	1,731,674	53,652,466
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,872,171	45,048	(6,413,632)	812,099	(3,684,314)
OTHER FINANCING SOURCES (USES)					
Issuance of bonds	-	-	10,930,000	-	10,930,000
Premiums on issuance of bonds	-	-	440,012	-	440,012
Transfers in	1,342,564	482,386	4,404,302	60,000	6,289,252
Transfers out	(3,756,292)	-	(50,000)	(1,599)	(3,807,891)
Proceeds from sale of assets	1,417,865	-	-	-	1,417,865
Total other financing sources (uses)	(995,863)	482,386	15,724,314	58,401	15,269,238
NET CHANGE IN FUND BALANCES	876,308	527,434	9,310,682	870,500	11,584,924
FUND BALANCES, BEGINNING	7,909,934	29,004	18,849,808	2,849,853	29,638,599
FUND BALANCES, ENDING	$ 8,786,242	$ 556,438	$ 28,160,490	$ 3,720,353	$ 41,223,523

The Notes to the Financial Statements 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 to the Statement of Activities

For the Fiscal Year Ended September 30, 2017

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

Net change in fund balances - total governmental funds		$ 11,584,924
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 ($8,616,047) and the loss on the sale of assets ($129,873) exceeded capital outlay ($5,141,398) and developer contributions ($6,807,524) in the current period.		3,203,002
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 inflows of resources.		91,069
Capital lease and bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Repayments of principal	7,271,177	
Issuance of bonds	(10,930,000)	
Premium on issuance	(440,012)	
		(4,098,835)
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 the increase in accrued interest payable ($18,184) and amortization of bond discounts/premiums and deferred losses ($519,797).		501,613
Some expenses not reported in the statements are required to be expensed in the statement of activities. This includes compensated absences, pension costs, and the unfunded OPEB obligation.		(1,839,927)
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.		(203,194)
Change in net position of governmental activities		$ 9,238,652

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
ASSETS					
Current assets:					
Cash, cash equivalents and investments	$ 7,336,164	$ 235,556	$ 1,168,551	$ 8,740,271	$ 278,584
Restricted cash, cash equivalents and investments:					
Revenue bond covenant accounts	3,734,307	-	-	3,734,307	-
Receivables (net of allowance for uncollectibles):					
Accounts	4,195,430	748,922	189,557	5,133,909	-
Accrued interest	7,059	146	681	7,886	-
Other	373,614	1,591	-	375,205	18,374
Due from other governments	6,129	3,157	714	10,000	-
Inventories	528,166	-	-	528,166	-
Prepaid and other items	23,596	-	-	23,596	188,367
Total current assets	16,204,465	989,372	1,359,503	18,553,340	485,325
Noncurrent assets:					
Restricted cash, cash equivalents and investments:					
Impact fee funds	1,237,649			1,237,649	-
Receivables (net of allowance for uncollectibles):					
Notes receivable	30,917	-	-	30,917	-
Capital assets:					
Land	960,155	-	49,925	1,010,080	-
Buildings	1,041,641	-	59,178	1,100,819	-
Systems	132,632,346	194,768	39,453,157	172,280,271	-
Machinery and equipment	9,766,985	57,417	511,173	10,335,575	-
Construction in progress	16,681,414	-	891,286	17,572,700	-
Less accumulated depreciation	(77,896,238)	(227,940)	(17,582,791)	(95,706,969)	-
Total capital assets	83,186,303	24,245	23,381,928	106,592,476	-
Total noncurrent assets	84,454,869	24,245	23,381,928	107,861,042	-
Total assets	100,659,334	1,013,617	24,741,431	126,414,382	485,325
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	1,479,068	-	158,854	1,637,922	-
Deferred outflows of resources - TMRS	549,378	-	13,415	562,793	-
Total deferred outflows of resources	2,028,446	-	172,269	2,200,715	-
LIABILITIES					
Current liabilities:					
Accounts payable	1,404,482	351,510	27,636	1,783,628	482,908
Accrued liabilities	80,220	888	2,744	83,852	2,417
Accrued interest payable	17,226	-	17,327	34,553	-
Retainage payable	55,509	-	5,940	61,449	-
Customer deposits	705,127	-	-	705,127	-
Compensated absences	15,652	-	-	15,652	-
Capital lease payable	812,131	-	48,490	860,621	-
Bonds payable	3,291,935	-	245,000	3,536,935	-
Total current liabilities	6,382,282	352,398	347,137	7,081,817	485,325
Current liabilities payable from restricted assets:					
Accrued interest payable	104,865	-	-	104,865	-
Retainage payable	11,636	-	2,000	13,636	-
Total current liabilities payable from restricted assets	116,501	-	2,000	118,501	-
Total current liabilities	6,498,783	352,398	349,137	7,200,318	485,325

(continued)

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
LIABILITIES (Continued)					
Noncurrent liabilities:					
Compensated absences	$ 140,258	$ -	$ -	$ 140,258	$ -
Net pension liability	1,194,692	-	42,923	1,237,615	-
Unfunded OPEB obligation	147,095	-	8,388	155,483	-
Capital lease payable	1,709,518	-	203,485	1,913,003	-
Bonds payable	27,817,212	-	2,600,566	30,417,778	-
Total noncurrent liabilities	31,008,775	-	2,855,362	33,864,137	-
Total liabilities	37,507,558	352,398	3,204,499	41,064,455	485,325
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows of resources - TMRS	25,860	-	472	26,332	-
Total deferred inflows of resources	25,860	-	472	26,332	-
NET POSITION					
Net investment in capital assets	52,272,224	24,245	20,443,241	72,739,710	-
Restricted for:					
Debt service	3,734,307	-	-	3,734,307	-
Unrestricted	9,147,831	636,974	1,265,488	11,050,293	-
Total net position	$ 65,154,362	$ 661,219	$ 21,708,729	$ 87,524,310	$ -

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas

Statement of Revenues, Expenses
And Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
OPERATING REVENUES					
Charges for sales and services:					
Charges for services	$ 27,688,606	$ 5,139,251	$ 1,356,154	$ 34,184,011	$ 5,050,512
Miscellaneous	269,684	2,034	-	271,718	796,040
Total operating revenues	27,958,290	5,141,285	1,356,154	34,455,729	5,846,552
OPERATING EXPENSES					
Personnel services	2,715,949	11,391	118,626	2,845,966	81,601
Water supply	7,872,080	-	-	7,872,080	-
Wastewater treatment	4,141,750	-	-	4,141,750	-
Contractual services	434,342	43,746	28,877	506,965	5,880,899
Maintenance, repairs and supplies	990,637	-	235,240	1,225,877	-
Utilities	472,338	-	-	472,338	-
Legal and professional	71,695	743	879	73,317	-
Refuse collection	-	3,709,062	-	3,709,062	-
Depreciation	5,562,096	4,847	1,123,986	6,690,929	-
Intragovernmental charges	1,899,052	227,532	253,884	2,380,468	-
Miscellaneous	39,255	580	-	39,835	84,968
Total operating expenses	24,199,194	3,997,901	1,761,492	29,958,587	6,047,468
OPERATING INCOME (LOSS)	3,759,096	1,143,384	(405,338)	4,497,142	(200,916)
NONOPERATING REVENUES (EXPENSES)					
Investment income	50,649	2,145	5,691	58,485	156
Gain on disposition of assets	35,783	-	28,490	64,273	-
Interest and fiscal charges	(674,081)	-	(95,113)	(769,194)	-
Total nonoperating revenues (expenses)	(587,649)	2,145	(60,932)	(646,436)	156
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	3,171,447	1,145,529	(466,270)	3,850,706	(200,760)
Capital contributions	4,133,760	-	968,046	5,101,806	-
Transfers out	(1,340,965)	(1,040,400)	(99,996)	(2,481,361)	-
CHANGE IN NET POSITION	5,964,242	105,129	401,780	6,471,151	(200,760)
TOTAL NET POSITION, BEGINNING	59,190,120	556,090	21,306,949	81,053,159	200,760
TOTAL NET POSITION, ENDING	$ 65,154,362	$ 661,219	$ 21,708,729	$ 87,524,310	$ -

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers and users	$26,931,248	$ 5,087,751	$ 1,344,770	$ 33,363,769	$ 5,039,738
Cash received from miscellaneous	269,684	2,034	-	271,718	796,040
Cash paid to employees for services	(2,546,132)	(11,391)	(113,441)	(2,670,964)	(81,601)
Cash paid for goods and services	(16,085,231)	(3,994,940)	(561,820)	(20,641,991)	(6,046,056)
Net cash provided by (used in) operating activities	8,569,569	1,083,454	669,509	10,322,532	(291,879)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	(1,340,965)	(1,040,400)	(99,996)	(2,481,361)	-
Net cash used in noncapital financing activities	(1,340,965)	(1,040,400)	(99,996)	(2,481,361)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Principal paid on capital debt	(4,405,180)	-	(274,359)	(4,679,539)	-
Interest and fiscal charges paid on capital debt	(870,287)	-	(141,073)	(1,011,360)	-
Capital contributions	4,133,760	-	968,046	5,101,806	-
Acquisition and construction of capital assets	(8,173,762)	(18,659)	(888,274)	(9,080,695)	-
Proceeds from sale of capital assets	641,525	-	28,490	670,015	
Net cash used in capital and related financing activities	(8,673,944)	(18,659)	(307,170)	(8,999,773)	-
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	50,649	2,145	5,691	58,485	156
Net cash provided by investing activities	50,649	2,145	5,691	58,485	156
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,394,691)	26,540	268,034	(1,100,117)	(291,723)
CASH AND CASH EQUIVALENTS, BEGINNING	13,702,811	209,016	900,517	14,812,344	570,307
CASH AND CASH EQUIVALENTS, ENDING	$12,308,120	$ 235,556	$ 1,168,551	$ 13,712,227	$ 278,584
CASH AND CASH EQUIVALENTS	7,336,164	235,556	1,168,551	8,740,271	278,584
RESTRICTED CASH AND CASH EQUIVALENTS	4,971,956	-	-	4,971,956	-
TOTAL CASH AND CASH EQUIVALENTS, ENDING	$12,308,120	$ 235,556	$ 1,168,551	$ 13,712,227	$ 278,584

(continued)

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Cash Flows – Continued
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Enterprise				Governmental Activities - Internal Service
	Water and Sewer	Refuse	Drainage	Total	Self-insurance
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES					
Operating income (loss)	$ 3,759,096	$ 1,143,384	$ (405,338)	$ 4,497,142	$ (200,916)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	5,562,096	4,847	1,123,986	6,690,929	-
Changes in assets and liabilities:					
Accounts receivable	(371,038)	(58,304)	(12,734)	(442,076)	(10,877)
Other receivables	(337,701)	6,804	1,350	(329,547)	103
Prepaid expenses and other assets	1,814	-	-	1,814	(135,572)
Inventory	(50,433)	-	-	(50,433)	-
Accounts payable and accrued liabilities	(213,031)	(13,277)	(41,951)	(268,259)	55,383
Customer and escrow deposits	41,004	-	-	41,004	-
Accrued compensated absences	33,547	-	-	33,547	-
Net pension liability and OPEB obligation	144,215	-	4,196	148,411	-
Total adjustments	4,810,473	(59,930)	1,074,847	5,825,390	(90,963)
Net cash provided by (used in) operating activities	$ 8,569,569	$ 1,083,454	$ 669,509	$ 10,322,532	$ (291,879)
NONCASH FINANCING AND INVESTING ACTIVITIES:					
Capital contributions	$ 4,133,760	$ -	$ 968,046	$ 5,101,806	$ -
Gain on disposal of capital assets	35,783	-	28,490	64,273	-
Total noncash financing and investing activities	$ 4,169,543	$ -	$ 996,536	$ 5,166,079	$ -

The Notes to the Financial Statements are an integral part of this statement.

City of Rowlett, Texas
Statement of Net Position
Fiduciary Funds
September 30, 2017

	PID Agency Fund	Other Post Employment Benefits Trust Fund
ASSETS		
Restricted Cash	$ -	$ 13,814
Investments:		
Money market	37,347,473	-
Equity mutual funds	-	226,350
Fixed income mutual funds	-	139,362
Total investments	37,347,473	365,712
Total assets	37,347,473	379,526
LIABILITIES		
Liability to bondholders	37,347,473	-
Total liabilities	$ 37,347,473	-
NET POSITION		
Held in trust for other post employment benefits and other purposes		379,526
Total net position		$ 379,526

The Notes to the Financial Statements are an integral part of this statement.

City Of Rowlett, Texas

Statement of Revenues, Expenses, and Changes in Fund Net Position

Fiduciary Funds

For the Fiscal Year Ended September 30, 2017

		Other Post Employment Benefits Trust Fund
ADDITIONS		
Employer contributions	$	99,356
Interest income		35,962
Total additions		135,318
DEDUCTIONS		
Administrative expenses		1,923
Total deductions		1,923
Change in net position		133,395
Net position, beginning of year		246,131
Net position, end of year	$	379,526

The Notes to the Financial Statements are an integral part of this statement.

Notes to the Basic Financial Statements

Rowlett
TEXAS

Note 1. Summary of Significant Accounting Policies

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. 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.

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 and business-type activities on the statement of net position and statement of activities. The City's statement of net position 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 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 for adopted funds.

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.

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 position and the statement of activities) report information of the primary government. All fiduciary activities are reported only in the fund financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The 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 a 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 non-major funds are combined in a separate column in the fund financial statements. The non-major funds are detailed in the combining section of the statements.

GASB Statement No. 34 also permits the City to report individual non-major funds if officials believe the fund is particularly important to the financial statement's readers. The Refuse Fund is reported as major for this reason.

Measurement Focus/Basis of Accounting

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.

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 not due within the operating cycle, 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 position.

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.

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 nonmajor fund types:

Special Revenue Funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for particular purposes, such as impact fees, police seizure, court fees, grants, etc.

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.

The **Fiduciary Funds** are used to hold assets for the benefit of a third party (pension participants) and cannot be used to address activities or obligations of the government. These funds are not incorporated into the government-wide financial statements.

Assets, Liabilities, and Net Position or Equity

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, 2017 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.

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.

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.

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 and inventories 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.

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. Nonrecurring or non-routine transfers of equity between funds, for example, contribution of capital assets to a proprietary fund, are accounted for as transfers.

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 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.

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 $10,000 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 acquisition value at the time received. Assets acquired by lease financing are capitalized over the term of the lease according to the City's capitalization threshold policy. 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.

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 $326,101.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The City has the following items that qualify for reporting in this category:

- Deferred charges on refundings – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets, changes in actuarial assumptions, and difference between expected and actual economic experience – These differences are deferred and amortized.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only two types of items. The first arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and special assessments. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is the difference in expected and actual pension experience and is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

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.

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 position. 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.

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 net pension liability and the other post-employment benefits (OPEB) obligation are liquidated with expendable resources in the General Fund.

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. 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. These encumbrances are re-appropriated and become part of the subsequent year's budget because performance under the executory contract is expected in the next year. Refer to Note 14F for the amount of encumbrances expected to be honored upon performance by the vendor in the next year.

Fund Balance Classification and Net Position

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. Fund balances classified as committed can only be used for specific purposes pursuant to Resolution Number RES-011-12 imposed by the City Council, which constitutes the highest level of action and most binding constraint.

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. The City Council has by resolution authorized the City Manager and/or the Director of Financial Services to assign fund balance. The Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

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 position represents the difference between assets and liabilities. Net investment in capital assets 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.

Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

Deficit Fund Balance

At September 30, 2017, the following funds had a deficit fund balance. The Grant Fund and Disaster Fund, both nonmajor governmental funds, had deficit fund balances of $253,766 and $41,640, respectively, due to the timing of reimbursements waiting to be received from grantors. The TIF Fund, a nonmajor governmental fund, had a deficit fund balance of $15,500 due to expenditures incurred before revenues were received.

Note 2. Stewardship, Compliance, and Accountability

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. Budget adjustments are transfers of approved funds from one line-item within a department or from one department to another within a fund. Budget adjustments within the same department under $10,000 may be approved by the Director and Director of Financial Services with notification to the City Manager. Budget adjustments exceeding $10,000 or between departments within the same fund shall be made at the discretion and approval of the City Manager. Budget amendments, which increase or decrease the total appropriation of a given fund shall be approved by the City Council at a regularly scheduled City Council meeting.

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 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 Five Year Capital Improvements Plan.

Excess of Expenditures over Appropriations

For the year ended September 30, 2017, the Impact Fee Fund expenditures exceeded appropriations by $380,543, the Police Seizure Fund by $5,019, the Disaster Fund by $336,617, the Traffic Safety Fund by $26,011, the Grant Fund by $73,895, the TIF Fund by $15,500, and the Other Special Revenue Fund by $80,956 and the Public Improvement District Fund by $52. The City's impact fees were used to fund an allowable project. Resources for the Police Seizure Fund come from federal and state asset forfeitures which govern the purposes for which they may be spent. The Disaster Fund excess is due to the unexpected tornado that occurred in December 2015. The Traffic Safety funds were spent towards legal fees. The City incurred unexpected grant expenditures for Hurricane Harvey. There was a new TIRZ fund set up during the fiscal year. And the City also had PEG funds approved from Other Special Revenue funds for the purchase of a new camera and equipment for RTN16. The budgets were not specifically amended to address the over expenditures.

Note 3. 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, 2017 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.

The City categorizes its fair value measurements within the three-level fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application*. Below are the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The City's investments are measured as presented in the table below. The City's investment balances, weighted average maturity, and credit risk of such investments are as follows:

	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Percent of Total Investments	Maturity (Years)	Rating
Investments Measured at Amortized Cost:							
Texas Local Government Investment Pools							
TexPool	$ 41,969,354	$ -	$ -	$ -	74.67%	0.003	AAAm
Investments Subject to Fair Value							
Commercial Paper	1,933,175	-	1,933,175	-	3.44%	0.560	P-1
U.S. Agencies	4,167,719	-	4,167,719	-	7.42%	2.030	Aaa
U.S. Treasuries	8,136,193	-	8,136,193	-	14.48%	1.790	Aaa
Total Value	$ 56,206,441	$ -	$ 14,237,087	$ -		1.690	

The City invests in Texas Local Government Investment Pool (TexPool), an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. The fair value of the City's position in the pool is the same as the value of pool shares.

The TexPool investment pool is an external investment pool measured at amortized cost to report net position to compute share prices. Accordingly, the fair value of the position in this pool is the same as the value of the shares in the pool. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of $1.00 per share, has a weighted average maturity of 60 days or less, and has a weighted average life of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

This local government investment pool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The Texas Local Government Investment Pool (TexPool) is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

The Texas Comptroller of Public Accounts is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

As of September 30, 2017, the City has the recurring fair value measurements for commercial paper, agencies, and treasury notes of $14,237,087 valued using quoted prices for similar assets in active markets (Level 2).

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 maturity 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, FHLMC, and US TSY) are individually rated by Standard & Poor's and by Moody's Investors Service (see table above). As of September 30, 2017, 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, 2017, 25.33% of the City's total investments are in the following: Federal Home Loan Banks (1.76%), Federal Home Loan Mortgage Corporation (1.94%), Fannie Mae (3.71%), US Treasury Notes (14.48%), and Commercial paper (3.44%) on a fair value basis. The remaining 74.67% is in TexPool.

Custodial Credit Risk – Deposits. For deposits, custodial credit risk is the risk that, in the event of a bank failure, the City may not be able to recover its deposits. The City's investment policy follows state statutes, which require that all deposits in financial institutions be fully collateralized or insured. As of September 30, 2017, the City's bank balance was $7,523,928, and none of that amount was exposed to 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.

Note 4. 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. Taxes are due October 1 and become delinquent after the following January 31. Penalty and interest is charged at 7% on delinquent taxes beginning February 1 and increases each month to a maximum of 18% on July 1. 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, 2016, upon which the fiscal year 2017 levy was based, was $3,934,914,024.

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, 2017 was $.787173 per $100, of which $0.551169 was allocated for general government and $0.236004 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, 2017, were 99.39% 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.

Note 5. Receivables

Receivables as of the year end for the City's individual major 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	$ 5,220	$ 190	$ 16,128	$ 2,257	$ 7,059	$ 146	$ 681	$ -	$ 31,681
Court	-	-	-	672	-	-	-	-	672
Ambulance	870,954	-	-	-	-	-	-	-	870,954
Lot mowing	327,897	-	-	-	-	-	-	-	327,897
Sales tax	1,196,417	-	-	-	-	-	-	-	1,196,417
Hotel/motel tax	-	-	-	7,575	-	-	-	-	7,575
Property tax	351,708	155,082	-	-	-	-	-	-	506,790
Customer accounts	-	-	-	-	4,289,147	772,782	194,663	-	5,256,592
Other accounts	103,316	-	-	-	373,614	1,591	-	18,374	496,895
Franchise fees	915,918	-	-	38,062	-	-	-	-	953,980
911 fees	35,778	-	-	-	-	-	-	-	35,778
Gross receivables	3,807,208	155,272	16,128	48,566	4,669,820	774,519	195,344	18,374	9,685,231
Less: allowance for uncollectibles	(723,103)	(16,536)	-	-	(93,717)	(23,860)	(5,106)	-	(862,322)
Net total receivables	$ 3,084,105	$ 138,736	$ 16,128	$ 48,566	$ 4,576,103	$ 750,659	$ 190,238	$ 18,374	$ 8,822,909

Revenue Recognition

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

	Unavailable	Unearned
Delinquent property tax receivable	$ 452,518	$ -
Ambulance	243,646	-
Mowing liens	272,226	-
Intergovernmental	471,309	171,215
Franchise Fees	171,957	-
Other	15,899	1,211
Total unavailable/unearned for governmental funds	$ 1,627,555	$ 172,426

Note 6. Capital Assets

Capital asset activity as of September 30, 2017 was as follows:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 29,105,819	$ 482,046	$ (99,602)	$ 29,488,263
Construction in progress	6,560,597	9,878,805	(1,724,514)	14,714,888
Total capital assets not being depreciated	35,666,416	10,360,851	(1,824,116)	44,203,151
Capital assets being depreciated:				
Buildings	21,919,543	348,373	7,721	22,275,637
Improvements other than buildings	24,800,603	20,445	(10,580)	24,810,468
Machinery and equipment	20,017,711	461,422	(859,822)	19,619,311
Infrastructure	125,324,626	757,831	1,604,916	127,687,373
Total capital assets being depreciated	192,062,483	1,588,071	742,235	194,392,789
Less accumulated depreciation:				
Buildings	(7,944,573)	(571,993)	1,125	(8,515,441)
Improvements other than buildings	(20,634,595)	(395,630)	6,877	(21,023,348)
Machinery and equipment	(11,562,644)	(2,448,168)	944,006	(13,066,806)
Infrastructure	(82,748,609)	(5,200,256)	-	(87,948,865)
Total accumulated depreciation	(122,890,421)	(8,616,047)	952,008	(130,554,460)
Total capital assets being depreciated, net	69,172,062	(7,027,976)	1,694,243	63,838,329
Governmental activities capital assets, net	$ 104,838,478	$ 3,332,875	$ (129,873)	$ 108,041,480

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 941,580	$ 68,500	$ -	$ 1,010,080
Construction in progress	10,604,647	7,052,087	(84,034)	17,572,700
Total capital assets not being depreciated	11,546,227	7,120,587	(84,034)	18,582,780
Capital assets being depreciated:				
Buildings	1,100,819	-	-	1,100,819
Improvements other than buildings	290,606	-	(17,665)	272,941
Machinery and equipment	10,617,220	134,188	(415,833)	10,335,575
Infrastructure	170,709,312	1,236,984	61,034	172,007,330
Total capital assets being depreciated	182,717,957	1,371,172	(372,464)	183,716,665
Less accumulated depreciation:				
Buildings	(516,095)	(28,642)	-	(544,737)
Improvements other than buildings	(260,315)	(2,773)	17,666	(245,422)
Machinery and equipment	(6,108,117)	(1,075,612)	413,573	(6,770,156)
Infrastructure	(82,585,752)	(5,583,902)	23,000	(88,146,654)
Total accumulated depreciation	(89,470,279)	(6,690,929)	454,239	(95,706,969)
Total capital assets being depreciated, net	93,247,678	(5,319,757)	81,775	88,009,696
Business-type activities capital assets, net	$ 104,793,905	$ 1,800,830	$ (2,259)	$ 106,592,476

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

Governmental activities:		
General government	$	614,224
Public safety		1,627,041
Public works		5,718,926
Culture and recreation		624,298
Community development		31,558
Total depreciation expense - governmental activities	$	8,616,047

Business-type activities:		
Water and sewer	$	5,562,096
Refuse		4,847
Drainage		1,123,986
Total depreciation expense - business-type activities	$	6,690,929

Note 7. Employee's Retirement System

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to 100% of what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions.

The City can grant, as often as annually, another type of monetary credit referred to as an updated service credit (USC) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, the City provides on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated service credit	100% repeating
Annuity increase (to retirees)	50% of CPI repeating

The City does not participate in Social Security.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	202
Inactive employees entitled to but not yet receiving benefits	246
Active employees	363
	811

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.42% and 13.00% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ending September 30, 2017, were $2,973,731, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 109,276,239	$ 94,377,526	$ 14,898,713
Changes for the year:			
Service cost	3,690,762	-	3,690,762
Interest	7,372,900	-	7,372,900
Difference between expected and actual experience	71,676	-	71,676
Changes of assumptions	-	-	-
Contributions - employer	-	2,763,065	(2,763,065)
Contributions - employee	-	1,557,284	(1,557,284)
Net investment income	-	6,379,417	(6,379,417)
Benefit payments, including refunds of employee contributions	(3,786,938)	(3,786,938)	-
Administrative expense	-	(72,034)	72,034
Other changes	-	(3,881)	3,881
Net changes	7,348,400	6,836,913	511,487
Balance at 12/31/2016	$ 116,624,639	$ 101,214,439	$ 15,410,200

Sensitivity of the net pension liability to changes in the discount rate –

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 33,314,452	$ 15,410,200	$ 871,615

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of $4,837,839.

At September 30, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 193,536	$ (363,225)
Changes in actuarial assumptions	746,837	-
Difference between projected and actual investment earnings	4,266,790	-
Contributions subsequent to the measurement date	2,303,739	-
Total	$ 7,510,902	$ (363,225)

$2,303,739 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the City's financial statements September 30, 2018).

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement year ended December 31:	
2017	$ 1,626,028
2018	1,772,164
2019	1,441,765
2020	3,981
Total	$ 4,843,938

Note 8. Long-Term Debt

A summary of long-term debt transactions, including the current portion, as of September 30, 2017, was as follows:

	Balance October 1, 2016	Issued Incurred	Retired or Refunded	Balance September 30, 2017	Due Within One Year
Governmental activities					
General obligation bonds	$ 58,866,953	$ 10,930,000	$ 5,902,959	$ 63,893,994	$ 6,613,065
Combined tax and surplus revenue certificates of obligation	2,700,000	-	155,000	2,545,000	160,000
Limited tax notes	1,070,000	-	175,000	895,000	175,000
Capital leases	4,271,557	-	1,038,218	3,233,339	766,167
Bond premiums	4,983,517	440,012	742,321	4,681,208	-
Compensated absences	3,008,610	243,786	52,052	3,200,344	321,295
Net pension liability	13,702,528	470,057	-	14,172,585	-
Unfunded OPEB obligation	1,361,772	-	64,922	1,296,850	-
Governmental activities long-term debt	$ 89,964,937	$ 12,083,855	$ 8,130,472	$ 93,918,320	$ 8,035,527
Business-type activities					
Water and sewer revenue bonds	$ 23,215,000	$ -	$ 2,185,000	$ 21,030,000	$ 1,975,000
General obligation bonds	12,693,047	-	1,502,041	11,191,006	1,561,935
Capital leases	3,721,764	-	948,140	2,773,624	860,621
Bond premiums	2,134,112	-	400,405	1,733,707	-
Compensated absences	122,363	41,651	8,104	155,910	15,652
Net pension liability	1,196,185	41,430	-	1,237,615	-
Unfunded OPEB obligation	165,019	-	9,536	155,483	-
Business-type activities long-term debt	$ 43,247,490	$ 83,081	$ 5,053,226	$ 38,277,345	$ 4,413,208

For the governmental activities, the net pension liability and the other post-employment benefit obligation are generally liquidated by the General Fund.

Long-term debt for governmental activities at September 30, 2017 includes the following individual issues:

	Original Issue Amount	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Governmental activities					
General obligation bonds:					
2010 Refunding	10,825,000	2.00-3.00	2/15/22	$ 4,735,000	$ 935,000
2011 Refunding	7,860,000	2.00-4.00	2/15/23	4,695,000	1,100,000
2012 Refunding	6,271,149	2.00-5.00	2/15/29	4,563,994	583,065
2013 Refunding	7,385,000	2.50-5.00	2/15/25	7,220,000	-
2014 Refunding	3,750,000	3.00-4.40	8/15/39	3,455,000	105,000
2015 Refunding and improvements	29,460,000	3.00-5.00	2/15/35	24,190,000	3,050,000
2016 Various purpose	4,105,000	4.00-5.00	2/15/36	4,105,000	-
2017 Various purpose	10,930,000	2.00-5.00	2/15/37	10,930,000	840,000
				63,893,994	6,613,065
Combination tax and revenue certificates of obligation:					
2015 Various purpose	2,885,000	3.00 - 4.00	2/15/30	2,545,000	160,000
				2,545,000	160,000
Tax notes					
2015 Tax note	1,235,000	0.63 - 2.02	2/15/22	895,000	175,000
Total governmental activities long-term bonded debt				67,333,994	6,948,065
Plus:					
Premiums and discounts				4,681,208	-
Net government activities long-term bonded debt				$ 72,015,202	$ 6,948,065

Long-term debt for business activities at September 30, 2017 includes the following individual issues:

	Original Issue Amount	Interest Rate (%)	Maturity Date	Outstanding	Due Within One Year
Business-type activities					
Utility system revenue bonds:					
2012 Various purpose	8,525,000	2.00-3.50	3/1/32	$ 6,810,000	$ 370,000
2014 Various purpose	4,825,000	1.00-4.00	3/1/34	4,310,000	185,000
2015 Refunding	12,330,000	1.50-5.00	3/1/26	9,910,000	1,420,000
				21,030,000	1,975,000
General obligation bonds:					
2011 Refunding	1,140,000	2.00-4.00	2/15/23	540,000	125,000
2012 Refunding	10,883,851	2.00-5.00	2/15/29	7,921,006	1,011,935
2013 Refunding	525,000	3.00-3.00	2/15/18	180,000	180,000
2015 Refunding	2,780,000	3.00-5.00	2/15/26	2,550,000	245,000
				11,191,006	1,561,935
Total business-type activities long-term bonded debt				32,221,006	3,536,935
Plus:					
Premiums and discounts				1,733,707	-
Net business-type activities long-term bonded debt				$ 33,954,713	$ 3,536,935

The annual requirements to amortize general and certificates of obligations bonds as of September 30, 2017 are summarized below:

	General and Certificates of Obligation Bonds					
Year Ended	Governmental Activities			Business-type Activities		
September 30,	Principal	Interest	Total	Principal	Interest	Total
2018	$ 6,948,065	$ 2,644,606	$ 9,592,672	$ 1,561,935	$ 449,833	$ 2,011,767
2019	6,304,515	2,358,478	8,662,993	1,430,485	398,646	1,829,131
2020	6,219,138	2,089,720	8,308,857	1,475,862	348,426	1,824,288
2021	6,167,899	1,828,351	7,996,250	1,502,101	291,571	1,793,672
2022	6,090,316	1,560,080	7,650,396	1,429,684	224,512	1,654,196
2023-2027	18,874,921	4,875,503	23,750,424	3,775,079	261,567	4,036,646
2028-2032	8,939,139	2,441,280	11,380,419	15,859	567	16,426
2033-2037	7,330,000	756,313	8,086,313	-	-	-
2038-2039	460,002	30,580	490,582	-	-	-
Total	$ 67,333,994	$ 18,584,910	$ 85,918,905	$ 11,191,006	$ 1,975,122	$ 13,166,127

The annual requirements to amortize water and sewer revenue bonds as of September 30, 2017 are summarized below:

Year Ended	Water and Sewer Revenue Bonds		
September 30,	Principal	Interest	Total
2018	$ 1,975,000	$ 712,650	$ 2,687,650
2019	2,050,000	639,175	2,689,175
2020	1,845,000	577,463	2,422,463
2021	1,560,000	531,706	2,091,706
2022	1,600,000	485,200	2,085,200
2023-2027	7,255,000	1,507,331	8,762,331
2028-2032	4,075,000	513,488	4,588,488
2033-2037	670,000	27,000	697,000
Total	$ 21,030,000	$ 4,994,013	$ 26,024,013

As of September 30, 2017, the City had authorized but unissued general obligation bonds outstanding as follows:

Date	Purpose	Amount Authorized	Previously Issued	Unissued Balance
5/19/2015	Streets	$ 8,367,340	$ 8,367,340	$ -
5/19/2015	Parks and recreation	1,813,610	1,813,610	-
5/19/2015	Public safety	996,050	996,050	-
		$ 11,177,000	$ 11,177,000	$ -

Bond Issuances

On August 17, 2017, the City issued "City of Rowlett General Obligation Bonds, Series 2017," totaling $10,930,000 to finance the construction and improvement of city streets, municipal parks and recreation facilities and public safety facilities. These bonds incur an average cost over the life of the bonds at a rate of 2.00-5.00% and mature annually with semi-annual interest payments. The bonds will fully mature in 2037.

Revenue Bonds

Revenue Bonds are used to finance the acquisition of major capital improvements for the water and sewer system and related facilities. These revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of net revenues of the water and sewer system.

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system, second to establish and maintain the debt service fund and third to establish and maintain a required reserve fund. Any net revenues remaining may be used for any lawful purpose. For fiscal year 2017, net revenue available for debt service was 6.12 times the average annual debt service requirement. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain required amounts and certain financial ratios are met.

Compliance with Debt Covenants

At September 30, 2017, and for the year then ended, the City was in compliance with all financial bond covenants on outstanding revenue and general obligation bonded debt.

Capital Leases

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase water meters and parts, haul trucks and a trailer. The agreement is for an approximate sixty-six month term based on delivery of equipment and expires on July 15, 2020. Payments are $132,968 annually and carry an effective interest rate of 1.645%.

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase a patch truck, backhoes, and a Gradall excavator. The agreement is for an approximate ninety month term based on delivery of equipment and expires on July 15, 2022. Payments are $116,620 annually and carry an effective interest rate of 1.905%.

The City previously entered into an agreement with US Bancorp Government Leasing and Financing, Inc. to purchase fire trucks. The agreement is for ten annual payments and expires on November 1, 2024. Payments are $198,831 annually and carry an effective interest rate of 2.01%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase fire protective clothing and bunker gear. The agreement is for five annual payments and expires on July 10, 2019. Payments are $49,706 annually and carry an effective interest rate of 1.57%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase a fuel management system. The agreement is for seven annual payments and expires on July 10, 2021. Payments are $15,339 annually and carry an effective interest rate of 1.79%.

The City previously entered into an agreement with Clayton Holdings, L.L.C. to purchase water meters. The agreement is for five annual payments and expires on July 10, 2019. Payments are $54,670 annually and carry an effective interest rate of 1.56%.

The City previously entered into an agreement with Whitney Bank to purchase three maintenance trucks. The agreement is for seven annual payments and expires on August 22, 2021. Payments are $110,546 annually and carry an effective interest rate of 1.632%.

The City previously entered into an agreement with SunTrust Leasing Corporation to purchase an enterprise resource planning system. The agreement is for an approximate 75 month term based on delivery of the equipment and expires on August 15, 2020. Payments are $126,327 annually and carry an effective interest rate of 1.82%.

The City previously entered into an agreement with Pinnacle Public Finance Inc. to purchase a self-contained breathing apparatus. The agreement is for an approximate 108 month term based on delivery of the equipment and expires on October 31, 2023. Payments are $44,683 annually and carry an effective interest rate of 2.63%.

The City previously entered into an agreement with Pinnacle Public Finance Inc. to purchase two ambulances and a payroll system. Both agreements are for approximate 48 month terms based on delivery of the equipment and both expire on October 31, 2018. Payments are $75,430 and $76,350, respectively, annually and carry an effective interest rate of 2.00%.

The City previously entered into an agreement with SunTrust Leasing Corporation to purchase water meters. The agreement is for an approximate 50 month term based on delivery of the equipment and expires on October 15, 2018. Payments are $89,035 annually and carry an effective interest rate of 1.38%.

The City previously entered into an agreement with Clayton Holdings to purchase a diesel chassis with crane. The agreement is for an approximate 72 month term based on delivery of the equipment and expires on December 17, 2018. Payments are $22,824 annually and carry an effective interest rate of 1.61%.

The City previously entered into an agreement with Capital One to purchase police and fire software. The agreement is for a nine year term based on delivery of the equipment and expires on September 30, 2020. Payments are $80,085 annually and carry an effective interest rate of 2.58%.

The City previously 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%.

The City previously entered into an agreement with SunTrust Equipment Finance & Leasing Corp. in 2005 totaling $5,183,559 to replace its water meter system and for various facility improvements. The agreement is for a fifteen 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	$ 1,161,946	$ 3,560,208	$ 4,722,154
Machinery and equipment	6,284,952	3,851,162	10,136,114
Less: accumulated depreciation	(4,932,409)	(3,936,761)	(8,869,170)
Total	$ 2,514,489	$ 3,474,609	$ 5,989,098

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
2018	$ 930,270	$ 837,088	$ 1,767,358
2019	930,270	837,088	1,767,358
2020	763,740	566,866	1,330,606
2021	201,942	268,739	470,681
2022	91,357	268,777	360,134
2023-2025	-	685,860	685,860
Total minimum lease payments	2,917,579	3,464,418	6,381,997
Less: amount representing interest	(143,955)	(231,079)	(375,034)
Present value of minimum lease payments	$ 2,773,624	$ 3,233,339	$ 6,006,963

Special Assessment Bonds

The government also issued special assessment debt in 2017 to provide funds for the cost of acquisition and construction of certain improvement projects and related debt issuance reserves and costs pertaining to the South Improvement Area of the Bayside Public Improvement District. These bonds will be repaid from amounts levied against property owners benefitted by this construction. Those amounts, including interest are 100 percent pledged to pay the scheduled principal and interest payments on the special assessment bonds. The bonds are secured by and payable from a first lien on and pledge of the Trust Estate. The bonds have a stated rate of interest of 6.68 percent and are payable over the next 30 years.

	Sale Date	Original Borrowing	Interest Rate	Maturity Date	Outstanding
South	9/18/2017	$ 36,450,000	6.68	9/15/2047	$ 36,450,000
North	3/15/2016	$ 13,515,000	4.90 - 6.00	9/15/2046	13,515,000

Note 9. 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 2017, the City purchased commercial insurance from Texas Municipal League (TML), a public entity risk pool, to cover these general liabilities, including worker's compensation. Both TML and the City purchased reinsurance and do not retain the entire risk of loss.

Policy	Retention	Limits of Liability
General Liability	$2,500 per occurrence	$2,000,000 per occurrence and $4,000,000 policy aggregate
Law Enforcement Liability & Errors and Omissions	$10,000 per occurrence	$3,000,000 per occurrence and $6,000,000 policy aggregate
Worker's Compensation	$0 per occurrence	Statutory
Property Loss	$1,000 per occurrence	$101,204,031
Automobile Liability	$2,500 per occurrence	$1,000,000 per occurrence and $25,000 each person
Automobile Physical Damage	$10,000 per occurrence $500 each vehicle	Agreed value as scheduled

The City maintains a self-insurance program for health insurance. Group medical benefits are paid from the Self-Insurance Fund (Internal Service Fund), which has an annually negotiated stop loss provision through Aetna. Revenues are recognized from payroll deductions from employee dependent coverage and from City contributions for employee coverage. The liabilities for insurance claims reported in the City's Self-Insurance Fund is based on GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. These liabilities include an estimate for incurred but not reported (IBNR) claims. Change in the fund's claim liability in fiscal year 2017 and 2016 is as follows:

Fund		Liability, Beginning of year	Current year Claims and Changes in Estimates	Claim Payments	Liability, End of year
Self-Insurance	**2017**	$399,067	$4,886,021	$4,824,945	$460,143
Self-Insurance	**2016**	$284,472	$3,742,486	$3,627,891	$399,067

For all insurance categories, 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.

Note 10. Interfund Transactions

A summary of interfund receivables and payables at September 30, 2017 is as follows:

Due from	Due to Nonmajor Governmental Funds	Total
General Fund	$ 262,610	$ 262,610
Capital Projects	27,133	27,133
	$ 289,743	$ 289,743

Interfund receivables and payables are primarily used to account for cash owed between funds that are expected to be repaid within one year or less.

The detail transfer schedule for the year ended September 30, 2017 was as follows:

Transfers from	Transfer to	Amount	Reason for Transfer
General	Capital projects	$ 3,504,302	Cash fund capital projects
	Debt service	241,990	Debt service payments
	Special Revenue	10,000	Reclass eligible costs
Capital projects	Special Revenue	50,000	Reclass eligible costs
Non-Major Governmental	General	1,599	Reclass eligible costs
Water and sewer	General	1,340,965	Franchise fee payments
Drainage	Capital projects	99,996	Cash fund capital projects
Refuse	Capital projects	800,004	Cash fund capital projects
	Debt service	240,396	Debt service payments
		$ 6,289,252	

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.

A transfer from the Water and Sewer Fund to the General Fund is made for 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.

Note 11. 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 $18,000 ($24,000 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.

Note 12. Post-Employment 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.

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 wage 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)	$ 348,986
Interest net OPEB obligation	103,058
Adjustment to the ARC	(110,510)
Annual OPEB cost	341,534
Employer contribution	(415,992)
Increase in net OPEB obligation	(74,458)
Net OPEB obligation, beginning of year	1,526,791
Net OPEB obligation, end of year	$ 1,452,333

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 follow:

Fiscal Year Ended	OPEB Cost	Employer Contribution	Percentage Contributed	OPEB Obligation
9/30/15	$ 419,082	$ 219,730	52.43%	$ 1,563,620
9/30/16	338,513	375,342	110.88%	1,526,791
9/30/17	341,534	415,992	121.80%	1,452,333

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded (AAL) (UAAL)	Funded Ratio	Fiscal Year	Covered Payroll
12/31/13	-	3,432,848	3,432,848	0.0%	2015	21,685,946
12/31/15	228,273	3,309,891	3,081,618	6.9%	2016	22,428,002
12/31/15	228,273	3,309,891	3,081,618	6.9%	2017	23,115,523

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, 2013	December 31, 2015
Actuarial cost method	Projected unit credit	Entry age
Amortization method	Level percent of payroll	Level percent of payroll
Remaining amortization period	30 years; open	24 years; closed
Asset valuation method	Market value	Market value
Actuarial assumption:		
Investment rate of return	4.50%	6.75%
Payroll growth rate	3.00%	1.50%
General inflation rate	3.00%	2.50%

Note 13. Tax Abatement

The City of Rowlett enters into economic development agreements designed to promote development and redevelopment within the City, spur economic development, stimulate commercial activity, generate additional taxes that enhance the property tax base, and provide job opportunities for our citizens. The City's economic development agreements are authorized under Chapter 380 of the Local Government Code and Chapter 311 (Tax Increment Financing Act) and Chapter 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code. Recipients may be eligible to receive incentives based on employment impact, economic impact or community impact as defined in the City's Policy on Economic Development Incentives. The City Economic Development staff also utilizes a third party software program to measure the economic impact of each project. Each economic development incentive agreement includes performance measures that are required for each recipient to meet and clawback provisions if such measures are not achieved.

The City has three categories of economic development agreements:

- General Economic Development - The City enters into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may rebate a flat amount or percentage of property tax received by the City; may result in fee reductions or waivers including building inspection fees or impact fees; or may make lump sum grant payments for tenant improvements, grease traps, infrastructure improvements, or other expenses. For FY 2017 the City of Rowlett rebated $4,725 in taxes.

- Tax Abatements – The City does not currently have any active tax abatement agreements but will consider them on a case-by-case basis for future projects.

- Tax Increment Financing - The City of Rowlett has two active Tax Increment Financing zones (TIFs) under Chapter 311 of the Texas Tax Code. The City enters into economic development and infrastructure reimbursement agreements which earmark TIF revenues for payments to developers and represent obligations over the life of the TIF or until all terms of the agreements have been met. The City has not made any payments under either TIF District to date.

Note 14. Commitments and Contracts

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

A. 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 original contract for water is dated June 3, 1965, and is for a period of 40 years. An amendatory contract was approved May 3, 1994 to extend the contract for a period of 30 years from the date of this amendment. 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, 2017, the City contracted for an annual requirement of 3,192,039,000 gallons. The actual amount of water taken was 2,305,745,000 gallons.

B. 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.

C. Solid Waste Disposal Contract – In May 2012, the City contracted with Waste Management 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, 2012, 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.

D. 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.

E. 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.

F. As discussed in Note 1, Encumbrances, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

General fund	$	520,308
Capital projects fund		4,285,099
Nonmajor governmental funds		18,120
Total governmental	$	4,823,527

Note 15. New Accounting Pronouncements

Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." The requirements of this Statement will take effect for OPEB plan financial statements with fiscal years ending on or after June 30, 2017. The City's OPEB plan year end is December 31.

Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other than Pensions." The requirements of this Statement are effective for financial statements with the fiscal year ending September 30, 2018.

Statement No. 77, "Tax Abatement Disclosures." The requirements of this Statement are effective for the current year.

Statement No. 78. "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans." The requirements of this Statement are effective for the current year.

Statement No. 81. "Irrevocable Split-Interest Agreements." The requirements of this Statement will take effect for financial statements starting with the fiscal year ending September 30, 2018.

Statement No. 82. "Pensions Issues - an amendment of GASB Statements No. 67, No. 68, and No. 70." The requirements of this Statement will take effect for financial statements starting with the fiscal year ending September 30, 2018, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end.

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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
GENERAL OBLIGATION BONDS, SERIES 2018

IN THE AGGREGATE PRINCIPAL AMOUNT OF $19,255,000

AS BOND COUNSEL for the City of Rowlett, Texas (the "Issuer"), the issuer of the above-described Bonds (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and 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 authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding special obligations of the Issuer, and that ad valorem taxes sufficient to provide for the payment of the interest, if any, on and principal of the Bonds have been levied and pledged for such purpose, within the limits prescribed by law, as provided in the ordinance adopted by the City Council of the Issuer, pursuant to which the Bonds have been issued.

IT IS FURTHER OUR OPINION that, except as discussed below, 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 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

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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 if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

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

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

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

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.

Respectfully,

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