

OFFICIAL STATEMENT
Dated: May 7, 2018

Ratings:
S&P: "AA"
Moody's: "Aa2"
See "Other Information - Ratings" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

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



\$31,475,000
CITY OF MESQUITE, TEXAS
(Dallas and Kaufman Counties)

GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2018

Dated Date: May 1, 2018

Due: February 15, as shown on page 2

Interest to accrue from Date of Delivery

PAYMENT TERMS . . . Interest on the \$31,475,000 City of Mesquite, Texas, General Obligation Refunding and Improvement Bonds, Series 2018 (the "Bonds", which, together with the \$16,050,000 City of Mesquite, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 [see page 3 of the Official Statement] being issued simultaneously with the Bonds (the "Certificates"), which together with the Bonds are referred to herein collectively as the "Obligations"), will accrue from the Date of Delivery, and 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 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 Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State" or "Texas") particularly Texas Government Code, Chapter 1207 and 1331, as amended, an election held on November 3, 2015 (the "Election") and an ordinance adopted by the City Council (the "Bond Ordinance") and constitute direct obligations of the City of Mesquite, Texas (the "City" or the "Issuer"), payable from the levy and collection of a direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City as provided in the Bond Ordinance (see "The Obligations - Authority for Issuance of the Bonds").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2008 and General Obligation Refunding Bonds, Series 2008, as described on Schedule I attached hereto (the "Refunded Obligations") in order to lower the City's outstanding debt payments; (ii) constructing, improving extending, expanding, upgrading and developing two-lane residential streets, including utility relocation, landscaping, sidewalk, traffic safety and operational improvements, drainage, the purchase of any necessary rights-of-way and other related costs; and (iii) pay legal, fiscal, and other professional fees in connection with the issuance of the Bonds.

CUSIP PREFIX: 59074P

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 2

SEPARATE ISSUES . . . The Bonds are being offered by the City concurrently with the issuance of the Certificates, under a common Official Statement. The Bonds and Certificates are separate and distinct securities offerings being issued and sold independently except for this Official Statement, and while they share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently including, without limitation, the type of obligation being offered, its terms for payment, the rights of the City to redeem the Obligations, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the rights of their respective holders. For federal income tax purposes, however, the Obligations will be treated as a single issue of tax-exempt obligations.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinions"). Certain matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about June 5, 2018.

SAMCO CAPITAL MARKETS

BOK FINANCIAL SECURITIES, INC.

MATURITY SCHEDULE

Principal Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 4,095,000	2019	4.000%	1.830%	CY5
1,025,000	2020	4.000%	1.980%	CZ2
1,065,000	2021	4.000%	2.120%	DA6
1,085,000	2022	4.000%	2.220%	DB4
1,130,000	2023	4.000%	2.300%	DC2
1,175,000	2024	4.000%	2.430%	DD0
1,225,000	2025	4.000%	2.520%	DE8
1,275,000	2026	4.000%	2.590%	DF5
1,325,000	2027	4.000%	2.660%	DG3
1,380,000	2028	4.000%	2.760%	DH1
1,325,000	2029	4.000%	2.860% ⁽²⁾	DJ7
1,385,000	2030	5.000%	2.810% ⁽²⁾	DK4
1,460,000	2031	5.000%	2.870% ⁽²⁾	DL2
1,530,000	2032	5.000%	2.950% ⁽²⁾	DM0
1,610,000	2033	5.000%	3.000% ⁽²⁾	DN8
1,695,000	2034	5.000%	3.070% ⁽²⁾	DP3
1,780,000	2035	5.000%	3.110% ⁽²⁾	DQ1
1,870,000	2036	5.000%	3.150% ⁽²⁾	DR9
1,970,000	2037	5.000%	3.180% ⁽²⁾	DS7
2,070,000	2038	5.000%	3.200% ⁽²⁾	DT5

(Accrued Interest from the Date of Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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, the Underwriters nor the Financial Advisor is 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 Obligations - Optional Redemption").

OFFICIAL STATEMENT

Dated: May 7, 2018

Ratings:
S&P: "AA"
Moody's: "Aa2"
See "Other Information - Ratings" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes and the Certificates are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

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



\$16,050,000
CITY OF MESQUITE, TEXAS
(Dallas and Kaufman Counties)

COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: May 1, 2018

Due: February 15, as shown on page 4

Interest to accrue from Date of Delivery

PAYMENT TERMS . . . Interest on the \$16,050,000 City of Mesquite, Texas, Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "Certificates", which, together with the \$31,475,000 City of Mesquite, Texas General Obligation Refunding and Improvement Bonds, Series 2018 (the "Bonds") [see the front cover of the Official Statement] being issued simultaneously with the Certificates, which together with the Bonds are referred to herein collectively as the "Obligations"), will accrue from the Date of Delivery, and 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 Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See "The Obligations - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas (see "The Obligations - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State" or "Texas") particularly Texas Local Government Code Chapter 271, Subchapter C (the Certificate of Obligation Act of 1971), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended and an ordinance adopted by the City Council (the "Certificate Ordinance") and constitute direct obligations of the City of Mesquite, Texas (the "City" or the "Issuer"), payable from a combination of (i) the levy and collection of a direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's waterworks and sewer system, as provided in the Certificate Ordinance (see "The Obligations - Authority for Issuance of the Certificates").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) acquisition of City information technology infrastructure and equipment; (ii) designing, engineering, developing, constructing, improving and repairing, extending and expanding streets, thoroughfares and bridges, including streetscaping, related storm drainage improvements, signalization and other traffic controls, sidewalks, street lights and the acquisition of any right of way therefor, (iii) acquisition of City vehicles for police, public works and park and recreation purposes; (iv) designing, developing, constructing, improving and renovating City buildings and facilities, including parks, recreation and arts facilities and Fire Station Number 4 ((i) through (iv), the "Project"); and (v) paying legal, fiscal, engineering and other professional fees in connection with such projects.

CUSIP PREFIX: 59074P

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page 4

SEPARATE ISSUES . . . The Certificates are being offered by the City concurrently with the issuance of the Bonds, under a common Official Statement. The Certificates and Bonds are separate and distinct securities offerings being issued and sold independently except for this Official Statement, and while they share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the rights of the City to redeem the Obligations, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and the rights of their respective holders. For federal income tax purposes, however, the Obligations will be treated as a single issue of tax-exempt obligations.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinions"). Certain matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on or about June 5, 2018.

SAMCO CAPITAL MARKETS

BOK FINANCIAL SECURITIES, INC.

MATURITY SCHEDULE

Principal Amount	15-Feb Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 1,330,000	2019	4.000%	1.830%	DU2
625,000	2020	4.000%	1.980%	DV0
645,000	2021	4.000%	2.120%	DW8
680,000	2022	4.000%	2.220%	DX6
705,000	2023	4.000%	2.300%	DY4
735,000	2024	4.000%	2.430%	DZ1
760,000	2025	4.000%	2.520%	EA5
795,000	2026	4.000%	2.590%	EB3
825,000	2027	4.000%	2.660%	EC1
860,000	2028	4.000%	2.760%	ED9
660,000	2029	4.000%	2.860% ⁽²⁾	EE7
685,000	2030	4.000%	2.980% ⁽²⁾	EF4
710,000	2031	4.000%	3.090% ⁽²⁾	EG2
745,000	2032	4.000%	3.200% ⁽²⁾	EH0
775,000	2033	5.000%	3.000% ⁽²⁾	EJ6
815,000	2034	5.000%	3.070% ⁽²⁾	EK3
855,000	2035	5.000%	3.110% ⁽²⁾	EL1
900,000	2036	5.000%	3.150% ⁽²⁾	EM9
950,000	2037	5.000%	3.180% ⁽²⁾	EN7
995,000	2038	5.000%	3.200% ⁽²⁾	EP2

(Accrued Interest from the Date of Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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, the Underwriters nor the Financial Advisor is 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 Certificates 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 Obligations - Optional Redemption").

This Official Statement, which includes the cover pages, Schedule 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 representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. 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. CUSIP Numbers have been assigned to this issue by CUSIP Global Services for the convenience of the owners of the Obligations.

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

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY (“DTC”) OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with and pursuant to their responsibilities to investors under the federal securities laws but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain information set forth in this Official Statement has been furnished by the City and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a promise or guaranty by, the City or the Financial Advisor. 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 since the date hereof. The delivery of this Official Statement at any time does not imply that the information herein is correct as to any time subsequent to its date. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the City’s undertaking to provide certain information on a continuing basis.

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all schedules and appendices attached hereto, to obtain information essential to making an informed investment decision.

THE OBLIGATIONS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

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The cover page hereof, this page, the schedule and 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 Obligations 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 Mesquite is a home rule municipality located in Dallas and Kaufman Counties, Texas. For information regarding the City and its economy, see Appendices A and B.

THE OBLIGATIONS..... The Bonds are issued as \$31,475,000 General Obligation Refunding and Improvement Bonds, Series 2018. The Bonds are issued as serial bonds maturing February 15 of each year from February 15, 2019 through February 15, 2038 (see “The Obligations – Description of the Obligations”).

The Certificates are issued as \$16,050,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018. The Certificates are issued as serial certificates maturing February 15 of each year from February 15, 2019 through February 15, 2038 (see “The Obligations - Description of the Obligations”).

SEPARATE ISSUES The Certificates and the Bonds are being offered by the City under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Obligations are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the security for its payment, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations, and the rights of the holders.

PAYMENT OF INTEREST Interest on the Bonds accrues from the Date of Delivery, and is payable February 15, 2019 and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Obligations - Description of the Obligations" and "The Obligations - Optional Redemption").

Interest on the Certificates accrues from the Date of Delivery, and is payable February 15, 2019 and each August 15 and February 15 thereafter until maturity or prior redemption (see “The Obligations – Description of the Obligations” and “The Obligations – Optional Redemption”).

AUTHORITY FOR ISSUANCE..... The Bonds are issued pursuant to the general laws of the State, Texas Government Code, Chapters 1207 and 1331, as amended, the Election, and an ordinance (the “Bond Ordinance”) passed by the City Council of the City (see “The Obligations – Authority for Issuance for the Bonds”).

The Certificates are issued pursuant to the general laws of the State, particularly, Texas Local Government Code, Chapter 271, Subchapter C (the Certificate of Obligation Act of 1971), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended and an ordinance (the “Certificate Ordinance”) passed by the City Council of the City (see "The Obligations - Authority for Issuance of the Certificates").

The Bond Ordinance and the Certificate Ordinance are herein referred to collectively as the “Ordinances”.

SECURITY FOR THE OBLIGATIONS..... The Obligations constitute direct obligations of the City, payable from the levy and collection of a direct annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the respective Ordinances authorizing the Obligations. In addition, the Certificates are secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the City’s waterworks and sewer system (see "The Obligations - Security and Source of Payment").

NOT QUALIFIED TAX-EXEMPT

OBLIGATIONS The City **has not designated** the Obligations as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters - Qualified Tax-Exempt Obligations for Financial Institutions").

REDEMPTION The City reserves the right, at its option, to redeem Obligations 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 Obligations - Optional Redemption").

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law, interest on the Obligations is excludable from gross income for federal income tax purposes and the Obligations are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2008 and General Obligation Refunding Bonds, Series 2008, as described on Schedule I attached hereto (the "Refunded Obligations") to lower the City's outstanding debt payments; (ii) constructing, improving extending, expanding, upgrading and developing two-lane residential streets, including utility relocation, landscaping, sidewalk, traffic safety and operational improvements, drainage, the purchase of any necessary rights-of-way and other related costs; and (iii) pay legal, fiscal, and other professional fees in connection with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for (i) acquisition of City information technology infrastructure and equipment; (ii) designing, engineering, developing, constructing, improving and repairing, extending and expanding streets, thoroughfares and bridges, including streetscaping, related storm drainage improvements, signalization and other traffic controls, sidewalks, street lights and the acquisition of any right of way therefor, (iii) acquisition of City vehicles for police, public works and park and recreation purposes; (iv) designing, developing, constructing, improving and renovating City buildings and facilities, including parks, recreation and arts facilities and Fire Station Number 4 ((i) through (iv), the "Project"); and (iv) for paying legal, fiscal, engineering and other professional fees in connection with such projects.

RATINGS The Obligations and the presently outstanding tax supported debt of the City are rated "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "Aa2" by Moody's Investors Service, Inc. ("Moody's"), without regard to credit enhancement (see "Other Information - Ratings").

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Obligations 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 Obligations may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "The Obligations - Book-Entry-Only System").

PAYMENT RECORD The City has never defaulted in payment of its general obligation tax debt.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

CITY COUNCIL

Stan Pickett	Mayor
Jeff Casper	Mayor Pro-Tem
Dan Aleman	Deputy Mayor Pro-Tem
Robert Miklos	Councilmember
Bruce Archer	Councilmember
Greg Noschese	Councilmember
Tandy Boroughs	Councilmember

SELECTED ADMINISTRATIVE STAFF

ADMINISTRATIVE OFFICERS

Cliff Keheley	City Manager
Jeff Jones	Deputy City Manager
Vacant	Assistant City Manager
Valerie Bradley	Managing Director of Community Services
Ted Chinn	Managing Director of Financial Services
Debbie Mol	Director of Finance
Sonja Land	City Secretary
Paula Anderson	City Attorney
Lisa Stout	Tax Assessor/Collector

CONSULTANTS AND ADVISORS

Auditors	BKD LLP, Dallas, Texas
Bond Counsel	Bracewell LLP, Dallas, Texas
Financial Advisor	Hilltop Securities Inc., Dallas, Texas

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OFFICIAL STATEMENT

RELATING TO

\$31,475,000
CITY OF MESQUITE, TEXAS
GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2018

AND

\$16,050,000
CITY OF MESQUITE, TEXAS
COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Schedule and the Appendices hereto, provides certain information regarding the issuance of \$31,475,000 City of Mesquite, Texas, General Obligation Refunding and Improvement Bonds, Series 2018 (the "Bonds") and \$16,050,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "Certificates" and together with the Bonds, the "Obligations"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinances authorizing the issuance of the Obligations (the "Bond Ordinance" with respect to the Bonds, and the "Certificate Ordinance" with respect to the Certificates) that were adopted on the date of sale of the Obligations, except as otherwise indicated herein. The Bond Ordinance and the Certificate Ordinance are sometimes referred to herein collectively as the "Ordinances".

The Certificates and the Bonds are being offered by the City under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Obligations are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the security for its payment, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations, and the rights of the holders.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1887, and first adopted its Home Rule Charter in 1953. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered two year terms with elections held annually in May. 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 personnel and equipment), health inspection and enforcement, water and sewer facilities, street and drainage facilities and parks and recreational facilities. The 2010 Census population for the City was 139,824, while the 2018 population is estimated at 143,060. The City covers approximately 46.963 square miles.

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PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City’s Combination Tax and Revenue Certificates of Obligation, Series 2008 and General Obligation Refunding Bonds, Series 2008, as described on Schedule I attached hereto (the “Refunded Obligations”) in order to lower the City’s outstanding debt payments; (ii) constructing, improving extending, expanding, upgrading and developing two-lane residential streets, including utility relocation, landscaping, sidewalk, traffic safety and operational improvements, drainage, the purchase of any necessary rights-of-way and other related costs; and (iii) pay legal, fiscal, and other professional fees in connection with the issuance of the Bonds.

Proceeds from the sale of the Certificates will be used for (i) acquisition of City information technology infrastructure and equipment; (ii) designing, engineering, developing, constructing, improving and repairing, extending and expanding streets, thoroughfares and bridges, including streetscaping, related storm drainage improvements, signalization and other traffic controls, sidewalks, street lights and the acquisition of any right of way therefor, (iii) acquisition of City vehicles for police, public works and park and recreation purposes; (iv) designing, developing, constructing, improving and renovating City buildings and facilities, including parks, recreation and arts facilities and Fire Station Number 4 ((i) through (iv)), the “Project”); and (v) for paying legal, fiscal, engineering and other professional fees in connection with such projects.

REFUNDED BONDS . . . The principal and interest due on the Refunded Obligations are to be paid on the redemption date of such Refunded Obligations, from funds to be deposited pursuant to a certain Deposit Agreement (the “Deposit Agreement”) between the City and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as paying agent/registrar for the Refunded Obligations (the “Refunded Obligation Paying Agent”). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriters and other funds of the City, if any, the City will deposit with the Refunded Obligation Paying Agent an amount which will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on the redemption date. Such funds will be held by the Refunded Obligation Paying Agent in a special redemption account (the “Redemption Account”) and used to pay principal and accrued interest on the Refunded Obligations on the redemption dates. Under the Deposit Agreement, the Redemption Account is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations. The funds on deposit in the Redemption Account will not be available to pay debt service on the Bonds.

Either the Refunded Obligation Paying Agent, in its capacity as Paying Agent for the Refunded Obligations, or the City’s financial advisor will certify as to the sufficiency of the amounts initially deposited therewith to pay the principal of and interest on the Refunded Obligations when due on the redemption date. By the deposit of the proceeds of the Bonds and other funds of the City, if any are required, with the Refunded Obligation Paying Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with applicable State law and the ordinances authorizing the Refunded Obligations. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Redemption Account held for such purpose by the Refunded Obligation Paying Agent, and the Refunded Obligations will not be deemed as being outstanding obligations of the City payable from ad valorem taxes, nor for the purpose of applying any limitation on the issuance of debt and the City will have no further responsibility with respect to amounts available in the Redemption Account for the payment of the Refunded Obligations.

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

<u>Sources of Funds</u>	<u>The Bonds</u>	<u>The Certificates</u>
Par Amount	\$ 31,475,000.00	\$ 16,050,000.00
Reoffering Premium	3,535,638.00	1,600,117.55
Transfers from Prior Issue Debt Service Funds	21,928.13	-
Total Sources of Funds	<u>\$ 35,032,566.13</u>	<u>\$ 17,650,117.55</u>
 <u>Uses of Funds</u>		
Underwriters' Discount	\$ 166,667.44	\$ 90,865.72
Costs of Issuance	176,645.41	99,251.83
Deposit to Redemption Fund	1,039,253.28	-
Deposit to Project Construction Fund	33,650,000.00	17,460,000.00
Total Uses of Funds	<u>\$ 35,032,566.13</u>	<u>\$ 17,650,117.55</u>

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . Each series of the Obligations is dated May 1, 2018, and matures on February 15 in each of the years and in the amounts shown on pages 2 and 4, respectively, of this Official Statement. Interest will accrue from the Date of Delivery of the Obligations, 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, beginning February 15, 2019 until maturity or prior redemption. The definitive Obligations 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 Obligations will be made to the owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE OF THE BONDS . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly, Texas Government Code, Chapters 1207 and 1331 as amended, the Election and the Bond Ordinance.

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly, Texas Local Government Code Chapter, 271, Subchapter C the "Certificate of Obligation Act of 1971", as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended and the Certificate Ordinance.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
Library	10/23/1976	\$ 3,500,000	\$ 2,420,000	\$ -	\$ 1,080,000
Parks	3/31/1990	9,900,000	6,998,400	-	2,901,600
Street Improvements	11/3/2015	125,000,000	25,000,000	33,650,000	66,350,000
		<u>\$ 138,400,000</u>	<u>\$ 34,418,400</u>	<u>\$ 33,650,000</u>	<u>\$ 70,331,600</u>

SECURITY AND SOURCE OF PAYMENT . . . The Obligations constitute 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 within the City. Additionally, the Certificates are payable from and secured by a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's Waterworks and Sewer System, as provided in the Certificate Ordinance.

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 the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Obligations 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 of the Obligations are to be redeemed, the City may select the maturities of Obligations to be redeemed. If less than all the Obligations of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Obligations are in Book-Entry-Only form) shall determine by lot the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (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.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected

Owners. Any bonds subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

NOTICE OF REDEMPTION. . . At least 30 days prior to a redemption date for the Obligations, the City shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each such registered owner at his address shown on the registration books of the Paying Agent/Registrar provided however, that the failure to send, mail, or receive such notice described above, or any defect therein or in the sending or mailing thereof, shall not affect the validity or effectiveness of the proceedings for the redemption of any Obligation. **NOTICE HAVING BEEN SO GIVEN AND ALL OTHER CONDITIONS TO REDEMPTION SATISFIED, THE OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.**

DEFEASANCE . . . The Ordinances provide that the City may discharge its obligations to the registered owners of any or all of the Obligations to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Obligations to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Obligations; provided that such deposits may be invested and reinvested in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United State 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 of the United States of America, including Obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, 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 on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds to refund the obligations, that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Obligations. If any such Obligations are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current state law, after such deposit as described above, the Obligations shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Obligations have been made as described above, all rights of the City to initiate proceedings to call the Obligations for redemption or take any other action amending the terms of the Obligations are extinguished; provided, however, that the right to call the Obligations 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 Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations 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.

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 Obligations. Because the Ordinances do not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

Upon such deposit as described above, such Obligations shall no longer be regarded to be outstanding or unpaid. The City has reserved the option, however, to be exercised at the time of the defeasance of the Obligations, to call for redemption at an earlier date, which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Obligations for redemption; (ii) gives notice of the reservation of that right to the owners of the Obligations 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.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Obligations 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 and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, 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 Obligations), 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 Obligations. The Obligations 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 each series of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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 Paying Agent/Registrar and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Obligations 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 Obligations are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

Use of Certain Terms in Other Sections of this Official Statement . . . In reading this Official Statement it should be understood that while the Obligations 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 Obligations, 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 Ordinances 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 Underwriters.

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas. In the Ordinances, 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 Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, trust company or 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 Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations 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, printed Bonds and Certificates will be delivered to the registered owners and thereafter the Bonds and Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Obligations 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. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation (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 Obligation or any portion thereof called for redemption prior to maturity, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations 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 an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . . The City may amend the Ordinances without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Obligations then outstanding, as applicable, amend, add to, or rescind any of the provisions of the respective Ordinances, except that, without the consent of the registered owners of all of the Obligations, as applicable, no such amendment, addition or rescission may (1) change the date specified as the date on which the principal on any installment of interest is due payable, reduce the principal amount or the rate of interest, or in any other way modify the terms of their payment, (2) give any preference to any Obligations, as applicable, over any other Obligations or (3) reduce the aggregate principal amount required to be held by owners for consent to any amendment, addition or rescission.

REMEDIES . . . The Ordinances authorizing the issuance of the Bonds and Certificates establish the following Events of Default with respect to the Bonds: (i) failure to make payment of principal of or interest on any of the Obligations when due and payable; or (ii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinances which materially and adversely affects the rights of the related Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinances, and the continuation thereof for a period of sixty days after notice of such default is given by any Owner to the City. Under State law, there is no right to the acceleration of maturity of the Obligations upon an event of default under the Ordinances. Although a registered Owner could presumably obtain a judgment against the City if a default occurred in any payment of the principal of or interest on any such Obligations, such judgment could not be satisfied by execution against any property of the City. Such registered Owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Obligations as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. No assurance can be given that a mandamus or other legal action to enforce a default under the Ordinances would be successful.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental 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 governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Obligations or covenants in the Ordinances. 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 Obligations.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law

and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Obligations, the City is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing the Obligations.

The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Obligations upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. 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 or 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 Obligationholders 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 opinions of Bond Counsel will note that the rights of holders of the Obligations are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

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

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Dallas Central and Kaufman Central Appraisal District (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 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 market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. 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. 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. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of 3 members appointed by the Board of Directors of the 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 Appraisal Review Board.

Reference is made to the Title I of the Texas Tax Code (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: (1) 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; and (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is \$5,000. Senate Joint Resolution I ("SJRI"), passed during the 84th Texas Legislature, authorized a constitutional amendment to allow the Legislature to prohibit a municipality that adopts an optional homestead exemption from reducing or repealing the amount of the exemption. SJRI was approved by the voters in the November 2015 Constitutional election, and Senate Bill I, also passed during the

84th Texas Legislature, prohibits municipalities from reducing or repealing the amount of their optional homestead exemption that was in place for the 2014 tax year for a period running through December 31, 2019.

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 or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residences homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. House Joint Resolution 75 ("HJR75"), passed during the 84th Texas legislature, proposed a constitutional amendment that allows the Legislature to provide for an exemption from ad valorem taxation of all or part of the market value of the residence homestead of the surviving spouse of a 100 percent or totally disabled veteran and who would have had qualified for the full exemption before the law authorizing a residence homestead exemption took effect. The proposition authorized by HJR75 was approved by voters in the November 2015 constitutional election. As such, the surviving spouse of a totally disabled veteran who died on or before January 1, 2010 and who would have qualified for the full exemption on the homestead's entire value if it had been available at that time, will be entitled to an exemption from ad valorem taxation of all or part of the market value of the residence homestead if the spouse has not remarried.

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 and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) 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 repeated 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. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. 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 the exemption from taxation of "goods in transit." "Goods in transit" is defined by a provision in the Property Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. 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. The Property Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year.

After taking such official action, the goods-in-transit remain subject to taxation by the local governmental entity until the governing body of the governmental entity rescinds or repeals its previous actions to tax goods-in-transit. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The City or Dallas County may create one or more tax increment financing districts ("TIF") within the City or Dallas County, as applicable, and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF.

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 ("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 grant of public fund 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. Under the Property Tax Code, the City Council will be 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". A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following 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. 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	32 ⁽¹⁾	6 ⁽²⁾	38

(1) Includes an additional 20% penalty to defray attorney's fees.

(2) Interest continues to accrue after July 1 at the rate that increases 1% per month until paid.

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. 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. A taxpayer who is 65 years of age or older or is disabled may defer the collection of delinquent property taxes on his or her residence homestead and prevent the filing of a lawsuit to collect delinquent taxes until the 181st day after the taxpayer no longer owns and occupies the property as a residence homestead. However, taxes and interest continue to accrue against the property, and the delinquent taxes incur a penalty of 8% per annum with no additional penalties or interest assessed. The lien securing such taxes and interest remains in existence during the deferral or abatement period. 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 grants an exemption of \$65,000 of the market value of the residential homestead of persons 65 years of age or older; the disabled are granted an exemption of \$15,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads.

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City has established a freeze on the taxes on residence homesteads of persons who are 65 years of age or older or who are disabled.

The City does not tax nonbusiness personal property.

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

The City does not tax freeport property.

The City has not taken action to tax goods-in-transit for the 2017 or 2018 tax years.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City currently has no abatements under agreement.

The City has seven Tax Increment Finance Zones: The Mesquite Rodeo City Tax Increment Finance District Reinvestment Zone Number One, the Towne Centre Tax Increment Finance District Reinvestment Zone Number Two; the Skyline Tax Increment Finance Reinvestment Zone Number Seven, the Gus Thomasson Tax Increment Finance Reinvestment Zone Number Eight, Town East/Skyline Tax Increment Finance Reinvestment Zone Number Nine, Polo Ridge Tax Increment Reinvestment Zone Number Ten and Heartland Town Center Tax Increment Reinvestment Zone Number Eleven. See Appendix A - Table 1 - Valuations, Exemptions, and General Obligation Debt.

MUNICIPAL SALES TAX . . . The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, 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 Obligations. 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. On August 10, 1991, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½% of 1%) on behalf of the Mesquite Quality of Life Corporation for economic development. Levy of an additional one-half of one percent (½ of 1%) for property tax reduction began on October 1, 1992. Table 7 of Appendix A shows the revenue from sources for the past nine fiscal years and an estimate for Fiscal Year 2018.

RETIREMENT PLAN AND OTHER POST EMPLOYMENT BENEFITS

RETIREMENT PLAN

Plan Description- The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid agent multiple-employer 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.tmr.com.

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

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with 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 two times 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 200% of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

	Plan Year 2017
Deposit Rate:	7%
Matching ratio (city to employee)	2 to 1
A member is vested after	5 years
Updated Service Credit	100%, Transfers
Annuity Increase (to retirees)	50% of CPI

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60, 20 years/any age.

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

Inactive employees or beneficiaries currently receiving benefits	733
Inactive employees entitled to but not yet receiving benefits	364
Active employees	1,079
	2,176

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 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 12.30% for January 2017 through September 2017 and 10.29% for October 2016 through December 2016. The City's contributions to TMRS for the year ended September 30, 2017, were \$8,324,268, 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 NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions:

The TPL 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%. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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, first used in the December 31, 2015 valuation. 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. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75% during 2015. 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.

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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 and with an adjustment for time (aggressive)). The target allocation and best estimates of arithmetic 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	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	100.00%	

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

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2016	\$ 504,241,810	\$ 385,732,947	\$ 118,508,863
Changes for the year:			
Service cost	11,607,011	-	11,607,011
Interest (on the total pension liability)	33,628,738	-	33,628,738
Difference between expected and actual experience	(265,481)	-	(265,481)
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(23,683,590)	(23,683,590)	-
Administrative expense	-	(294,412)	294,412
Contributions - member	-	7,083,990	(7,083,990)
Contributions - employer	-	4,819,479	(4,819,479)
Net investment income	-	26,059,766	(26,059,766)
Other	-	(15,862)	15,862
Net Changes	21,286,678	13,969,371	7,317,307
Balance at September 30, 2017	\$ 525,528,488	\$ 399,702,318	\$ 125,826,170

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the sensitivity of the NPL to changes in the discount rate when calculating it at 1-percentage-point-lower (5.75%) and 1-percentage-point-higher (7.75%).

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 196,214,625	\$ 125,826,170	\$ 67,405,591

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately issued TMRS financial report which may be obtained at www.tmr.com.

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

For the year ended September 30, 2017, the City recognized pension expense of \$20,669,047.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 4,941	\$ 3,014,972
Difference between projected and actual investment earnings on pension plan investments	18,262,766	4,033
Changes in assumptions	2,258,615	36,448
Change in proportional share	670,481	670,481
Employer contributions subsequent to the measurement date	6,404,414	-
	<u>\$ 27,601,217</u>	<u>\$ 3,725,934</u>

Deferred outflows of resources of \$6,404,414 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 5,979,477
2019	5,979,477
2020	5,475,733
2021	40,363
2022	(4,181)
Total	<u>\$ 17,470,869</u>

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding.

Required Supplementary Information - Required supplementary information for the schedule of changes in net pension liability and related ratios and schedule of contributions is presented immediately following the Notes to the Basic Financial Statements.

SELF INSURANCE

Group Health Insurance - The City established the Health Claims internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years, and settled claims did not exceed this self-insured coverage in fiscal year 2017.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The Group Medical Insurance internal service fund began the fiscal year with (\$4,478,679) in unrestricted net position after inclusion of \$951,034 of estimated outstanding health claims payable. During the year, operating and non-operating expenses exceeded operating and non-operating revenues by \$671,751 resulting in a (\$5,150,430) balance in unrestricted net position at year-end. Actual claims paid totaled \$11,901,926. The decrease in net position was due to increased medical claims incurred and administrative fees. The City has continued a contract with an outside firm to assist the City in controlling and monitoring medical claims. The City plans to eliminate the deficit fund balance through proposed plan changes, increased premium charges, and increased City contributions to the plan.

The estimated claims payable of \$1,191,354 reported in the Group Medical Insurance internal service fund is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues ("GASB No. 10"), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2016 and 2017 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2016	\$ 951,034	\$ 13,907,060	\$ 13,907,060	\$ 951,034
2017	951,034	8,574,307	8,333,987	1,191,354

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by an independent consultant.

General Liability 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 1985, the City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of \$10,000 retention for each real & personal property claim and a scheduled limit on coverage, \$10,000 retention for each mobile equipment claim and a scheduled limit on coverage, \$10,000 retention for each auto physical damage claim and a scheduled limit on coverage, \$100,000 retention for each auto catastrophe claim and a \$7,700,000 limit on coverage, \$100,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage, \$100,000 retention for each general liability claim and a \$1,000,000 limit on coverage, \$2,500 retention for each airport hangar-keeper claim and a \$1,000,000 limit on coverage, \$100,000 retention for each auto liability claim and a \$1,000,000 limit on coverage, \$100,000 retention for each errors and omission claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate, \$300,000 retention for each worker's compensation claim, \$10,000 retention for each crime coverage claim with a \$500,000 limit on coverage, and \$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage. The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the self insured coverage in any of the past five fiscal years.

The General Liability fund began the fiscal year with unrestricted net position of (\$1,210,971). During the year, operating expenses exceeded operating and non-operating revenues by \$209,043, resulting in a (\$1,001,928) balance in unrestricted net position at year-end. Actual claims paid were \$1,414,831. The estimated claims payable of \$2,189,118 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2016 and 2017 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2016	\$ 2,039,619	\$ 1,909,952	\$ 1,936,943	\$ 2,012,628
2017	2,012,628	1,591,321	1,414,831	2,189,118

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described above under the subcaption "Retirement Plan," the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare plan. These benefits are provided to retired employees under the same plan options as active employees in accordance with City ordinances. For those employees who retired prior to February 1, 2000 the premiums are almost entirely paid by the City, subject to a small cap, until the employee attains age 65. For those employees hired prior to October 1, 2004 who retire after February 1, 2000 with a minimum of ten years of service, the City will pay 4% per year of service (up to 25 years of service) subject to a small cap amount. The City's payment for the retirees' dependents is 2.6% per year of service. Employees hired after October 1, 2004 who retire at age 55 or older with 15 years of service will receive a City medical plan contribution of \$12/month for each year of service. After age 65, retired employees may continue in the City healthcare plan if they pay the premiums or will have the option to enroll in a Medicare Supplement plan and pay the monthly premium associated with the plan.

The City paid approximately \$2.4M in premiums and claims for 362 retired employees and their dependents in fiscal year 2017.

Funding Policy – Current retirees contribute to the retiree health care program the total blended premium for active and retired participants. The City contribution to the retiree health care program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contribution rates for fiscal year 2017 were \$5,994. In fiscal year 2017, total retiree contributions were \$1,426,284. The City contributions to the plan for fiscal year 2017, which are equal to claims and premiums paid in excess of premiums collected, were \$2,377,592.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefit (OPEB) cost for the retiree health care program 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount annually contributed to the plan, and the changes in the City's net OPEB obligation to the plan.

Annual required contribution	\$ 2,748,134
Interest adjustment to net OPEB obligation	192,774
Adjustment to ARC	(191,525)
Annual OPEB cost (expense)	<u>\$ 2,749,383</u>
Contributions made	<u>(2,377,592)</u>
Increase in net OPEB asset	371,791
Net OPEB liability - beginning of year	4,819,348
Net OPEB liability - end of year	<u><u>\$ 5,191,139</u></u>

The following table shows the assumed annual OPEB cost and net OPEB obligation for the past three years.

Fiscal Year Ended	Discount Rate	Annual OPEB Cost	OPEB		Net OPEB Liability (Asset)
			Cost Contributed	% of Cost Contributed	
9/30/2016	4.50%	\$ 2,749,383	\$ 2,377,592	86.5%	\$ 5,191,139
9/30/2016	4.50%	3,309,584	2,619,119	79.1%	4,819,348
9/30/2015	4.50%	3,105,603	1,868,375	60.2%	4,128,883

Funding Status and Funding Progress – As of September 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$38,947,479, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$63,129,166 and the ratio of UAAL to the covered payroll was 61.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – In the September 30, 2017 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return which is a blended rate of the expected long-term investment returns on the plan assets and on the employer’s own investments. An annual inflation rate of 2.5% and an annual aggregate payroll increase of 3% was assumed. A healthcare trend increase of 2.5% was assumed which represents the portion of health care increases to be borne by the City. The UAAL is being amortized at a level percentage of projected payroll. The amortization period is thirty years and is an open period.

Required Supplementary Information - Required supplementary information for the analysis of funding progress is presented immediately following the Notes to the Basic Financial Statements.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . The City policy is to adhere to accounting principles generally accepted in the United States (see Appendix C “Excerpts From The City Of Mesquite, Texas Annual Financial Report for the Fiscal Year Ended September 30, 2017”).

GENERAL FUND BALANCE . . . A formal resolution was adopted on September 30, 1993 to establish a plan to restore and maintain a surplus and unencumbered funds equal to 15% of expenditures in the General Fund. The plan was phased in over 5-6 years. This allows the City to avoid interim borrowing and fund unexpected requirements pending tax receipts.

USE OF BOND PROCEEDS, GRANTS, ETC . . . The City policy is to use bond proceeds, grants or other nonrecurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

BUDGETARY PROCEDURES . . . The City policy is to begin the budgetary procedure at the department level in March of each year. The budget proceeds through departmental levels until it reaches the City Manager level where it is refined and presented to the City Council in mid-July. The City Council considers, amends, and refines the budget until its final adoption in September.

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

LEGAL INVESTMENTS . . . Under Texas 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 of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or a) where the funds are invested by an investing entity through: (i) a broker that has its main office or a branch office in this state and is selected from a list adopted by the City; or (ii) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity; (b) where the broker or the depository institution selected by the investing entity under (a) 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; (iii) 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 (iv) the investing entity appoints the depository institution selected by the investing entity under (a), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1), which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City with a third party selected and approved by the City and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain

bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. 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.

INVESTMENT POLICIES . . . Under Texas 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, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order 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 said order or resolution, (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement 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 repurchase agreement; (8) restrict the investment in 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 services; and to invest no portion of bond proceeds, reserves and funds held for debt service in mutual funds; (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.

CURRENT INVESTMENTS

As of March 31, 2018, the City's investable funds were invested in the following categories:

Description	% of Portfolio	Book Value	Market Value
U.S. Government Agency Issues	30.38%	\$ 35,968,142	\$ 35,754,992
Municipal Bonds	0.41%	490,259	488,285
Investment Pools	60.64%	71,782,807	71,782,807
Money Market Fund Accounts	8.57%	10,140,872	10,140,872
Total	100.00%	\$ 118,382,081	\$ 118,166,956

DEBT SERVICE

BONDED DEBT LIMITATION

Under current state law, there is no direct limitation on the amount of funded debt that the City may issue or incur. However, the City's maximum ad valorem tax rate is limited by the Constitution and laws of State of Texas to \$2.50 per \$100 of assessed valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance.

The City's Charter, (Article 5, Section 2) states:

"The City Council shall have the power and is hereby authorized and made its duty to levy, assess, and collect annually for general purposes authorized by laws and for the purpose of paying the interest and providing the sinking fund on the bonded indebtedness of the City of Mesquite now in existence or which may hereafter be created an ad valorem tax on real, personal or mixed property in such amounts and at such rates as shall be determined by the City council subject to applicable limitations and prohibitions now or hereafter contained in the Constitution of the State of Texas."

Article XI, Section 5 of the State Constitution states in part:

"but no tax for any purpose shall ever be lawful for any one year, which shall exceed two and one-half per cent of the taxable property of such city..."

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Obligations is excludable from gross income for federal income tax purposes and (ii) the Obligations are not "private activity bonds" under the Code, and, as such, interest on the Obligations is not subject to the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Obligations, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in each of the Bond Ordinance and Certificate Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of each of the Bond Ordinance and Certificate Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Obligations from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in each of the Bond Ordinance and Certificate Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Obligations could become includable in gross income from the date of delivery of the Obligations, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Obligations.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 as to whether or not the Service will commence an audit of the Obligations. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations regardless of the ultimate outcome of the audit.

COLLATERAL TAX CONSEQUENCES . . . Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Obligations. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Obligations should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Obligations, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM . . . The issue price of all or a portion of the Obligations may exceed the stated redemption price payable at maturity of such Obligations. Such Obligations (the "Premium Obligations") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Obligation in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Obligation in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Obligation by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Obligation that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined using the yield to maturity on the Premium Obligation based on the initial offering price of such Premium Obligation.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Obligations should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Obligation and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Obligations.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The issue price of all or a portion of the Obligations may be less than the stated redemption price payable at maturity of such Obligations (the "Original Issue Discount Obligations"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Obligation, and (ii) the initial offering price to the public of such Original Issue Discount Obligation constitutes original issue discount with respect to such Original Issue Discount Obligation in the hands of any owner who has purchased such Original Issue Discount Obligation in the initial public offering of the Obligations. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Obligation equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Obligation continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Obligations under the captions "TAX MATTERS – Tax Exemption," "– Collateral Tax Consequences" and "– Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriter has purchased the Obligations for contemporaneous sale to the public and (ii) all of the Original Issue Discount Obligations have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the pages 2 and 4 of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Obligations will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Obligation accrues 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 Obligations and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Obligation for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) 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 (ii) the amounts payable as current interest during such accrual period on such Obligation.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Obligations that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Obligations 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 Obligations 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 Obligations.

TAX LEGISLATIVE CHANGES . . . Public Law No. 115-97 (i.e., Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Obligations, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Further, current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Obligations from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Obligations. Prospective purchasers of the Obligations should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In each of the Ordinances, the City has made the following agreements for the benefit of the holders and beneficial owners of each of the respective series of the Obligations. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Obligations. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS. . . The City will provide certain updated financial information and operating data to 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 13 in Appendix A. The City will update and provide the information in Tables numbered 1 through 13 in Appendix A within six months after the end of each fiscal year ending in or after 2018. The City will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2018. 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. Financial statements will be prepared in accordance with the accounting principles described in Appendix C 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 may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the U.S. Securities and Exchange Commission (the "SEC"). While the City will not be obligated to provide financial statements until twelve months after fiscal year end, it intends to attempt to do so within six months after year end.

The City's current fiscal year end is September 30. Accordingly, updated unaudited financial information and operating data included in the above-referenced tables must be provided by March 31 in each year, and financial statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES. . . The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Obligations: (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 Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Obligation calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Obligations, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) Appointment of a successor or additional trustee or change in the name of the trustee, if material. (Neither the Obligations nor the Ordinances make any provision for debt service reserve, credit enhancement, unless municipal bond insurance is obtained for the Obligations, or liquidity enhancement.). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement under “Annual Reports.”

AVAILABILITY OF INFORMATION. . . All information and documentation filings required to be made by the City in accordance with its undertaking made for the Obligations will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided by the MSRB, without charge to the general public, at www.emma.msrb.org.

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 Obligations 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 agreements, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreements 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 Obligations 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 Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the 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 Obligations in the primary offering of the Obligations.

If the City so amends the agreements, it has agreed to include with the next financial information and operating data provided in accordance with its agreements described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City currently has outstanding certain obligations which are secured by financial guaranty insurance. At various times during the last five years, the ratings of certain municipal bond insurance companies whose financial guaranty insurance additionally secures certain of the City’s outstanding obligations have changed. While information regarding the upgrades/downgrades of these municipal bond insurers has been publicly reported, on March 14, 2016, the City filed a notice with EMMA describing the rating history of those certain municipal bond insurers whose financial guaranty insurance additionally secures currently outstanding obligations of the City.

OTHER INFORMATION

RATINGS

The Obligations and the presently outstanding tax supported debt of the City are rated "AA" by S&P and "Aa2" by Moody's, without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of the rating agency and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Obligations.

LITIGATION

Various lawsuits pending against the City involve claims relating to general liability, automotive liability, workers' compensation, civil rights actions and various contractual matters. In the opinion of the City's management, the outcome of the pending litigation if decided adversely to the City, will not have a material adverse effect on the City's financial position, operations or the Obligations.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

The sale of the Obligations 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 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations 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 Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations 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 Obligations are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of each series of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Obligations is excludable from gross income for federal income tax purposes and the Obligations are not "private activity bonds." Though it may represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in the issuance of the Obligations. 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 Obligations, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Obligations will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the statements and information contained in the Official Statement under the captions "Plan of Financing" (except for the information under the subcaption "Sources and Uses of Proceeds), "The Obligations" (except for the information under the subcaptions "Book-Entry-Only System" and "Remedies"), "Tax Matters," "Continuing Disclosure of Information" (except for the information under the subcaption "Compliance with Prior Undertakings") "Other Information - Registration and Qualification of Obligations for Sale", "Other Information - Legal investments and Eligibility to Secure Public

Funds in Texas” and “Other Information - Legal Matters” (except for the last two sentences of the first paragraph thereof) and such firm is of the opinion that the statements and information relating to the Obligations and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Obligations, such information conforms to the Ordinances. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will be attached to or accompany the definitive Obligations. In connection with the transactions described in this Official Statement, Bond Counsel represents only the City. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Texas. The legal fee to be paid to counsel for the Underwriters for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations.

The legal opinions to be delivered concurrently with the delivery of the Obligations 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.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, 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.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$166,667.44. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of \$90,865.72. The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their responsibilities to investors under the federal securities laws but the Underwriters do not guarantee the accuracy or completeness of such information.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Obligations are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligation, Series 2008

<u>Original Dated Date</u>	<u>Original Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Principal Amount</u>	<u>Refunded Amount</u>
5/1/2008	2/15/2019	3.850%	\$ 80,000	\$ 80,000
	2/15/2020	4.000%	80,000	80,000
	2/15/2021	4.125%	85,000	85,000
	2/15/2022	4.250%	90,000	90,000
	2/15/2023	4.300%	90,000	90,000
	2/15/2024	4.375%	95,000	95,000
	2/15/2025	4.375%	100,000	100,000
	2/15/2026	4.500%	105,000	105,000
	2/15/2027	4.500%	110,000	110,000
	2/15/2028	4.500%	115,000	115,000
				<u>\$ 950,000</u>

The 2019 – 2028 maturities will be redeemed prior to original maturity on June 12, 2018 at par.

General Obligation Refunding Bonds, Series 2008

<u>Original Dated Date</u>	<u>Original Maturity Date</u>	<u>Interest Rates</u>	<u>Outstanding Principal Amount</u>	<u>Refunded Amount</u>
5/1/2008	2/15/2019	3.850%	\$ 25,000	\$ 25,000
	2/15/2020	4.000%	25,000	25,000
	2/15/2021	4.125%	25,000	25,000
				<u>\$ 75,000</u>

The 2019 – 2021 maturities will be redeemed prior to original maturity on June 12, 2018 at par.

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APPENDIX A
FINANCIAL INFORMATION REGARDING
THE
CITY OF MESQUITE, TEXAS

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/18 Market Valuation Established by Dallas Central Appraisal District ⁽¹⁾ (excluding totally exempt property)		\$ 8,974,501,305
Less Exemptions/Reductions at 100% Market Value		
65 Years and Over	\$ 454,322,481	
Disabled Persons	11,411,539	
Disabled Veterans	23,680,612	
Agriculture/Open Space Land	47,838,600	
Capped Value Loss	314,592,121	
Under \$500	677,612,396	
Tax Increment Finance Zone	226,041,828	
Freeport Property	123,027,903	
Pollution Control/Other	<u>141,386</u>	<u>1,878,668,866</u>
2017/18 Net Taxable Assessed Valuation ⁽¹⁾		\$ 7,095,832,439
City Funded Debt Payable From Ad Valorem Taxes (as of 3/1/18)		
General Obligation Debt ⁽²⁾	\$ 137,615,000	
The Bonds	31,475,000	
The Certificates	<u>16,050,000</u>	
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 185,140,000
Less: Self-Supporting Debt ⁽³⁾		\$ 14,530,000
Net General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 170,610,000
Interest and Sinking Fund (as of 2/1/18)		\$ 14,658,082
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		2.61%

2018 Estimated Population - 143,060
Per Capita Taxable Assessed Valuation - \$49,600
Per Capita Funded Debt - \$1,294

-
- (1) Tax roll as certified on July 20, 2017. Values are as of February 7, 2018.
(2) Excludes the Refunded Obligations.
(3) General obligation debt, in the amounts shown, for which repayment is provided from revenues of the Mesquite Quality of Life Economic Development Corporation (“4B Corporation”). It is the City’s current policy to provide these payments from the 4B Corporation; this policy is subject to change in the future.

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TABLE 2 – HISTORICAL TAXABLE ASSESSED VALUATION

Fiscal Year	Taxable Assessed Valuation ⁽¹⁾	% Valuation Increase/(Decrease) Over Prior Year
2008/09	\$ 6,394,381,391	1.22%
2009/10	6,005,488,103	-6.08%
2010/11	5,683,237,432	-5.37%
2011/12	5,619,670,357	-1.12%
2012/13	5,475,557,054	-2.56%
2013/14	5,464,027,496	-0.21%
2014/15	5,735,841,681	4.97%
2015/16	5,962,561,376	3.95%
2016/17	6,527,469,597	9.47%
2017/18	7,095,832,439 ⁽²⁾	8.71%

(1) The Taxable Assessed Valuation is determined by the Dallas Central Appraisal District. Preparation of the tax bills/statements is done by the City of Mesquite Tax Office. Taxable Assessed Valuation is Total Assessed Valuation less total exemptions. The calculation of the Total Assessed Valuation considers property “under protest” at the lower of the protested value or the prior year’s value.

(2) Certified Valuation – July 20, 2017.

TABLE 3 – TOP TEN AD VALOREM TAXPAYERS IN FISCAL YEAR 2017

Name of Taxpayer	Nature of Property	FYE 2017 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Town East Mall PS	Shopping mall	\$ 129,690,990	1.99%
Pepsi Cola	Soft Drink Bottling	69,248,360	1.06%
Market East Associates LLC	Shopping Center	56,500,000	0.87%
Oncor Electric Delivery	Electric Utility	45,182,260	0.69%
Ocean Barons LP	Apartment complex	43,500,000	0.67%
United Parcel Service	Package Delivery	35,406,820	0.54%
IRIS USA Inc.	Manufacturer	34,895,700	0.53%
BRE DDR Marketplace	Shopping Center & Restaurants	34,591,000	0.53%
SPI Mission Ranch LLC	Apartment complex	31,000,000	0.47%
MREIC Mesquite LLC	Distribution Warehouse	30,387,130	0.47%
		<u>\$ 510,402,260</u>	<u>7.82%</u>

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TABLE 4 – TOTAL APPRAISED VALUATION BY CATEGORY

Fiscal Year	Real Property ⁽¹⁾		Personal and Other Property		Total Appraised Valuation
	Appraised Valuation	% of Total	Appraised Valuation	% of Total	
2008/09	\$ 6,317,051,999	88.63%	\$ 810,550,370	11.37%	\$ 7,127,602,369
2009/10	5,973,852,065	89.11%	730,160,080	10.89%	6,704,012,145
2010/11	5,641,119,635	88.86%	707,457,430	11.14%	6,348,577,065
2011/12	5,560,241,173	88.27%	739,026,900	11.73%	6,299,268,073
2012/13	5,408,470,099	87.83%	749,665,330	12.17%	6,158,135,429
2013/14	5,322,038,935	85.98%	868,038,230	14.02%	6,190,077,165
2014/15	5,578,721,690	85.81%	922,754,580	14.19%	6,501,476,270
2015/16	5,868,551,036	86.35%	927,480,690	13.65%	6,796,031,726
2016/17	7,119,912,427	87.77%	992,501,310	12.23%	8,112,413,737
2017/18	7,910,434,725	88.14%	1,064,066,580	11.86%	8,974,501,305

(1) Includes real and tangible personal property relating to utilities and banks.

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TABLE 5 - TAXABLE ASSESSED VALUATIONS BY USE CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,708,669,952	52.47%	\$ 4,105,294,519	50.61%	\$ 3,643,113,209	53.61%
Real, Residential, Multi-Family	695,683,060	7.75%	649,971,160	8.01%	587,239,630	8.64%
Real, Vacant Lots/Tracts	170,950,910	1.90%	174,143,240	2.15%	110,863,780	1.63%
Real, Acreage (Land Only)	48,921,134	0.55%	45,755,479	0.56%	47,119,619	0.69%
Real, Farm and Ranch Improvements	4,454,289	0.05%	4,525,539	0.06%	2,924,530	0.04%
Real, Commercial / Industrial	2,263,698,790	25.22%	2,123,271,170	26.17%	1,499,455,467	22.06%
Real and Tangible Personal, Utilities	114,705,420	1.28%	113,443,790	1.40%	109,106,910	1.61%
Tangible Personal, Commercial	708,538,170	7.90%	652,158,230	8.04%	562,725,481	8.28%
Tangible Personal, Industrial	222,672,900	2.48%	205,639,600	2.53%	194,138,130	2.86%
Tangible Personal, Other	-	0.00%	-	0.00%	4,407,170	0.06%
Special Inventory	36,206,680	0.40%	38,211,010	0.47%	34,937,800	0.51%
Total Appraised Value Before Exemptions	\$ 8,974,501,305	100.00%	\$ 8,112,413,737	100.00%	\$ 6,796,031,726	100.00%
Less: Total Exemptions/Reductions	1,878,668,866		1,584,944,140		833,470,350	
Taxable Assessed Value	\$ 7,095,832,439		\$ 6,527,469,597		\$ 5,962,561,376	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,494,338,864	53.75%	\$ 3,332,612,326	53.84%
Real, Residential, Multi-Family	502,557,622	7.73%	474,454,600	7.66%
Real, Vacant Lots/Tracts	108,978,063	1.68%	107,456,320	1.74%
Real, Acreage (Land Only)	24,190,670	0.37%	41,071,330	0.66%
Real, Farm and Ranch Improvements	1,234,630	0.02%	3,469,859	0.06%
Real, Commercial / Industrial	1,441,559,771	22.17%	1,357,016,790	21.92%
Real and Tangible Personal, Utilities	111,081,480	1.71%	102,908,670	1.66%
Tangible Personal, Business	575,544,650	8.85%	544,517,970	8.80%
Real Property, Inventory	203,639,720	3.13%	189,634,140	3.06%
Tangible Personal, Other	4,533,930	0.07%	6,293,350	0.10%
Special Inventory	33,816,870	0.52%	30,641,810	0.50%
Total Appraised Value Before Exemptions	\$ 6,501,476,270	100.00%	\$ 6,190,077,165	100.00%
Less: Total Exemptions/Reductions	765,634,589		726,049,669	
Taxable Assessed Value	\$ 5,735,841,681		\$ 5,464,027,496	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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TABLE 6 – 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
2010	\$ 0.64000	\$ 0.48443	\$ 0.15557	\$ 38,362,233	98.23%	99.59%
2011	0.64000	0.47076	0.16924	36,392,283	98.27%	99.38%
2012	0.64000	0.46859	0.17141	35,677,427	98.73%	99.41%
2013	0.64000	0.46225	0.17775	34,819,001	98.62%	99.22%
2014	0.64000	0.45953	0.18047	34,961,217	98.56%	99.22%
2015	0.64000	0.46220	0.17780	36,282,438	98.69%	98.69%
2016	0.64000	0.43637	0.20363	37,869,840	98.83%	98.83%
2017	0.68700	0.45542	0.23158	43,954,143	98.76%	98.76%
2018 ⁽¹⁾	0.68700	0.44972	0.23728	48,369,181	85.70%	85.70%

(1) Amount stated is net the Tax Increment from the City's Tax Increment Finance Zones and includes collections through January 31, 2018. Tax bills for fiscal year 2018 will be mailed in October 2018 and delinquent February 1, 2019.

TABLE 7 – MUNICIPAL SALES TAX HISTORY

Fiscal Year Ended 30-Sep	Total Collections ⁽¹⁾	% of AD Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2009	\$24,238,633	59.97%	\$ 0.3838	\$ 175.83
2010	25,626,829	66.80%	0.4275	183.64
2011	26,497,664	72.81%	0.4660	189.51
2012	27,440,269	76.91%	0.4922	196.18
2013	29,071,617	83.49%	0.5344	207.73
2014	30,085,010	86.05%	0.5507	214.53
2015	31,253,822	86.14%	0.5513	219.77
2016	32,667,106	86.26%	0.5521	228.52
2017	33,020,884	75.13%	0.5161	231.00
2018	32,520,000 ⁽²⁾	67.23%	0.4619	227.32

(1) Amounts include ½ of 1% for property tax reduction and ½ of 1% for the 4B Corporation.

(2) Projected. Adopted 2018 budget.

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TABLE 8 – 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 bonds ("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 bonds, 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 Value	2017/18 Tax Rate	Total Funded Debt	Estimated % Applicable	City's Overlapping Funded Debt 3/1/2018	Authorized But Unissued Debt As of 3/1/2018
City of Mesquite	\$ 7,095,832,439	\$0.68700	\$ 170,610,000 ⁽¹⁾	100.00%	\$ 170,610,000 ⁽¹⁾	\$ 69,981,600
Overlapping:						
Dallas County	224,416,323,244		187,435,000	2.97%	5,566,820	-
Dallas Co. Comm. Coll. Dist.	231,510,039,944		228,350,000	2.97%	6,781,995	-
Dallas County Hospital District	225,319,083,792		703,770,000	2.97%	20,901,969	-
Kaufman County	8,035,975,395		62,054,016	0.32%	198,573	-
Mesquite ISD	7,816,282,975		544,763,402	87.26%	475,360,545	-
Dallas County Schools	207,228,323,960		45,350,000	2.97%	1,346,895	-
Dallas ISD	109,626,365,195		2,832,330	0.14%	3,965	950,595,000
Forney ISD	3,351,314,987		260,873,711	0.93%	2,426,126	37,460,000
Garland ISD	17,823,103,077		516,975,090	0.04%	<u>206,790</u>	89,445,000
Total Direct and Overlapping Funded Debt					\$ 683,403,676.75	
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					9.63%	
Per Capita Overlapping Funded Debt					\$ 4,777	

(1) Includes the Obligations; excludes the Refunded Obligations and self-supporting debt.

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DEBT INFORMATION

TABLE 9 –GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 30-Sep	Outstanding Debt Service ⁽¹⁾			The Bonds ⁽²⁾		The Certificates ⁽³⁾		Less: Self- Supporting Debt ⁽⁴⁾	Net Total Outstanding Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Principal	Interest			
2018	\$ 12,805,000	\$ 5,635,423	\$ 18,440,423	\$ -	\$ -	\$ -	\$ -	\$ 630,870	\$ 17,809,553	
2019	8,655,000	5,255,309	13,910,309	4,095,000	1,605,492	1,330,000	803,419	1,263,674	20,480,546	
2020	10,210,000	4,959,212	15,169,212	1,025,000	1,228,400	625,000	629,200	1,248,231	17,428,581	
2021	10,390,000	4,634,725	15,024,725	1,065,000	1,186,600	645,000	603,800	1,225,606	17,299,519	
2022	11,285,000	4,261,456	15,546,456	1,085,000	1,143,600	680,000	577,300	1,209,356	17,823,000	32.28%
2023	11,970,000	3,835,278	15,805,278	1,130,000	1,099,300	705,000	549,600	1,201,356	18,087,822	
2024	11,545,000	3,374,972	14,919,972	1,175,000	1,053,200	735,000	520,800	1,179,481	17,224,491	
2025	10,535,000	2,898,575	13,433,575	1,225,000	1,005,200	760,000	490,900	1,153,031	15,761,644	
2026	9,715,000	2,445,134	12,160,134	1,275,000	955,200	795,000	459,800	1,130,406	14,514,728	
2027	8,975,000	2,016,948	10,991,948	1,325,000	903,200	825,000	427,400	1,132,781	13,339,766	63.95%
2028	9,005,000	1,614,075	10,619,075	1,380,000	849,100	860,000	393,700	1,138,606	12,963,269	
2029	6,675,000	1,280,759	7,955,759	1,325,000	795,000	660,000	363,300	1,132,363	9,966,697	
2030	5,485,000	1,030,763	6,515,763	1,385,000	733,875	685,000	336,400	1,129,419	8,526,619	
2031	4,800,000	817,350	5,617,350	1,460,000	662,750	710,000	308,500	1,134,519	7,624,081	
2032	4,240,000	636,616	4,876,616	1,530,000	588,000	745,000	279,400	1,134,156	6,884,859	84.63%
2033	4,005,000	477,513	4,482,513	1,610,000	509,500	775,000	245,125	1,135,919	6,486,219	
2034	3,990,000	321,419	4,311,419	1,695,000	426,875	815,000	205,375	1,133,422	6,320,247	
2035	3,325,000	176,600	3,501,600	1,780,000	340,000	855,000	163,625	991,550	5,648,675	
2036	2,575,000	59,163	2,634,163	1,870,000	248,750	900,000	119,750	809,425	4,963,238	
2037	235,000	4,113	239,113	1,970,000	152,750	950,000	73,500	809,588	2,575,775	98.45%
2038	-	-	-	2,070,000	51,750	995,000	24,875	650,875	2,490,750	100.00%
	<u>\$ 150,420,000</u>	<u>\$ 45,735,402</u>	<u>\$ 196,155,402</u>	<u>\$ 31,475,000</u>	<u>\$ 15,538,542</u>	<u>\$ 16,050,000</u>	<u>\$ 7,575,769</u>	<u>\$ 22,574,635</u>	<u>\$ 244,220,079</u>	

(1) "Outstanding Debt" does not include lease purchase obligations or the Refunded Obligations.

(2) Average life of the Bonds – 10.385 years. Interest estimated for purposes of illustration.

(3) Average life of the Certificates – 10.371 years. Interest estimated for purposes of illustration.

(4) General obligation debt, in the amounts shown, for which repayment is provided from revenues of the 4B Corporation. It is the City's current policy to provide these payments from the 4B Corporation; this policy is subject to change in the future.

TABLE 9A – COMPUTATION OF SELF-SUPPORTING DEBT

Net 4B Revenue Available, Fiscal Year Ended 9-30-17 ⁽¹⁾	\$ 4,381,916
Less: Requirements for Sales Tax Revenue Bonds (2018)	-
Balance Available for Other Purposes	<u>\$ 4,381,916</u>
Projected Requirements for 4B Tax Bonds (2018)	630,870
Percentage of System General Obligation Bonds Self-Supporting	100%

(1) Excludes funds for capital projects.

TABLE 10 – INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Purpose Net Debt Service Requirements, Fiscal Year Ending 9-30-18 ⁽¹⁾	\$ 17,809,553	
Interest and Sinking Fund Balance, 10-1-17	\$ 599,174	
Budgeted Interest and Sinking Fund Tax Levy	15,300,000	
Transfer from Impact Fee Fund	1,350,000	
Transfer from Capital Projects	-	
Transfer from Capital Projects Reserve	50,000	
Transfer from Water and Sewer Fund	522,020	
Transfer from Airport Hanger Rental	<u>199,810</u>	<u>\$ 18,021,004</u>
Estimated Balance, 9-30-18		<u><u>\$ 211,451</u></u>

(1) Includes the Obligations; excludes the Refunded Obligations and self-supporting debt.

TABLE 11 – TAX ADEQUACY⁽¹⁾

2018 Net Principal and Interest Requirements	\$ 17,809,553
\$0.2562 Tax Rate at 98% Collection Produces	17,815,932
Average Annual Net Principal and Interest Requirements, 2018 - 2038	\$ 11,716,353
\$0.1685 Tax Rate at 98% Collection Produces	11,717,348
Maximum Net Principal and Interest Requirements, 2019	\$ 20,480,546
\$0.2946 Tax Rate at 98% Collection Produces	20,486,236

(1) Includes the Obligations; excludes the Refunded Obligations and self-supporting debt.

TABLE 12 – OTHER OBLIGATIONSNotes Payable

The City has a loan agreement with the State Infrastructure Bank with an outstanding balance at fiscal year end 2017 of \$578,096. This loan is payable from the available revenues from the Towne Center TIF and is payable in approximately equal installments through 2018.

The City has a revolving loan agreement with the State Energy Conservation Office with an outstanding balance at fiscal year end 2017 of \$180. This loan is payable from the available operating funds of the City.

Annual debt service requirements through maturity of loan notes payable are as follows:

Fiscal Year Ending September 30,	Governmental Activities	
	Principal	Interest
2018	<u>\$ 578,096</u>	<u>\$ 23,702</u>
Total	<u><u>\$ 578,096</u></u>	<u><u>\$ 23,702</u></u>

TABLE 13 – COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Ad Valorem Taxes	\$ 44,458,568	\$ 38,344,565	\$ 36,438,625	\$ 35,198,532	\$ 35,138,217
Sales Taxes	7,446,414	32,667,106	31,253,822	30,085,010	29,071,617
Gross Receipt Taxes	33,020,884	7,503,853	7,770,318	8,388,756	7,537,785
Licenses and Permits	2,364,665	2,225,109	1,703,270	1,126,989	1,166,932
Fines and Forfeitures	3,095,807	3,102,091	2,988,441	3,521,315	3,927,995
Investment Income	247,343	144,226	76,653	31,687	35,916
Charges for Services	14,232,844	15,294,494	14,621,662	12,979,136	12,927,133
Intergovernmental	212,144	160,163	129,061	826,396	513,035
Contributions and Donations	133,402	153,211	300,808	974,093	285,041
Other	1,186,833	1,677,817	748,192	224,835	643,123
Total Revenues	\$ 106,398,904	\$ 101,272,635	\$ 96,030,852	\$ 93,356,749	\$ 91,246,794
Expenditures:					
General Government	\$ 12,831,507	\$ 13,013,523	\$ 13,118,432	\$ 12,706,266	\$ 12,563,457
Fire Service	26,537,481	25,545,915	24,563,162	24,308,123	23,442,868
Police Works	34,015,588	32,175,132	30,489,181	30,526,252	30,923,533
Public Services	12,230,519	12,149,780	12,381,426	12,025,104	12,693,381
Planning and Development Services	2,443,364	2,254,016	2,674,755	2,622,418	2,619,446
Library Services	2,041,203	1,894,824	2,003,757	1,880,170	1,873,424
Parks and Recreation	1,862,499	2,744,217	5,223,395	3,141,302	2,749,214
Community Services	2,600,451	2,619,625	1,725,071	2,338,560	1,899,479
Other	-	-	-	-	-
Total Expenditures	\$ 94,562,612	\$ 92,397,032	\$ 92,179,179	\$ 89,548,195	\$ 88,764,802
Excess (Deficiency) of Revenues Over Expenditures	\$ 11,836,292	\$ 8,875,603	\$ 3,851,673	\$ 3,808,554	\$ 2,481,992
Other Financing Sources (Uses):					
Transfers In	5,750,000	6,009,000	5,550,000	5,536,095	7,885,460
Transfers Out	(15,889,874)	(13,310,410)	(9,850,000)	(9,600,000)	(10,000,000)
Capital Lease Proceeds	257,074.00	-	-	-	-
Proceeds from Bonds	-	-	-	-	-
Total Other Financing sources (Uses)	\$ (9,882,800)	\$ (7,301,410)	\$ (4,300,000)	\$ (4,063,905)	\$ (2,114,540)
Excess (Deficiency) of Revenues and other Financing sources over (under) Expenditures and other Financing Uses	\$ 1,953,492	\$ 1,574,193	\$ (448,327)	\$ (255,351)	\$ 367,452
Beginning Fund Balance	18,276,485	16,702,292	17,150,619	17,405,970	17,038,518
Ending Fund Balance	\$ 20,229,977	\$ 18,276,485	\$ 16,702,292	\$ 17,150,619	\$ 17,405,970

TABLE 14 – GENERAL FUND ADOPTED BUDGET, FISCAL YEAR 2017/2018

The City's Adopted operating budget for the fiscal year ending September 30, 2017 is as follows:

	<u>Adopted Budget 2017/18</u>
Revenues	
Ad Valorem Taxes	\$ 47,952,000
Sales Taxes	32,520,000
Gross Receipts Taxes	7,560,000
Licenses and Permits	2,206,100
Fines and Forfeitures	2,872,000
Investment Income	300,000
Charges for Services	13,766,100
Other	882,100
Intergovernmental Revenues	150,000
Operating Transfers In	5,750,000
Total Revenues	<u>\$ 113,958,300</u>
Expenditures	
General Government	\$ 12,245,740
Housing and Community Services	1,837,210
Neighborhood Services	1,197,050
Fire Service	26,863,680
Police Service	33,799,970
Public Works	13,112,890
Planning and Development Services	2,637,690
Library Services	2,176,600
Parks/Recreation	728,930
Other Expenditures	3,848,420
Total Expenditures	<u>\$ 98,448,180</u>
Excess Revenues Over Expenditures	\$ 15,510,120
<u>Other Financing Sources (Uses):</u>	
Transfers In	\$ -
Transfers Out	(15,500,000)
Proceeds from Bonds	-
Total Other Sources (Uses)	<u>\$ (15,500,000)</u>
Excess of Revenues Over Expenditures and Other Financing Sources (Uses)	<u>\$ 10,120</u>
Fund Balance at Beginning of Year	<u>\$ 20,229,977</u>
Fund Balance at End of Year	<u>\$ 20,240,097</u>

City Staff monitors actual revenues and expenditures monthly and revisions are made to the original budget as necessary to reflect changes in the economy and changes in laws or regulation that might affect operations.

APPENDIX B

**GENERAL INFORMATION REGARDING
THE CITY OF MESQUITE, TEXAS
AND ITS ECONOMY**

THE CITY

The City is a political subdivision of the State of Texas, comprising approximately 45.972 square miles in Dallas County adjacent to the City of Dallas and the City of Garland. Mesquite was incorporated in 1887 and operates as a home-rule city under the general laws of the State of Texas and a charter approved by the voters in 1953. The City has a Council/Manager form of government in which the mayor and six council members are elected for staggered two year terms with elections held annually in May. Policy making is the responsibility of, and vested in, the City Council. The Council delegates the operational authority of the City to the City Manager who is the chief administrative officer of the City.

The City provides all the functions normally associated with a municipality including, but not limited to, public safety (i.e., police and fire personnel and equipment), health inspection and enforcement, water and sewer facilities, street and drainage facilities and parks and recreational facilities. The City presently employs approximately 1,114 persons full time.

POPULATION

The City has had a steady population increase during the past several years as reflected in the following table:

<u>Year</u>	<u>Population</u>	<u>Source</u>
1950	1,696	U.S. Census
1960	27,526	U.S. Census
1970	55,131	U.S. Census
1980	67,053	U.S. Census
1990	101,484	U.S. Census
2000	124,523	U.S. Census
2001	126,570	N. Central Texas Council of Gov't.
2002	127,800	N. Central Texas Council of Gov't.
2003	129,650	N. Central Texas Council of Gov't.
2004	131,582	N. Central Texas Council of Gov't.
2005	133,600	N. Central Texas Council of Gov't.
2006	135,894	N. Central Texas Council of Gov't.
2007	136,750	N. Central Texas Council of Gov't.
2008	137,550	N. Central Texas Council of Gov't.
2009	137,850	N. Central Texas Council of Gov't.
2010	139,824	U.S. Census
2011	139,870	N. Central Texas Council of Gov't.
2012	139,950	N. Central Texas Council of Gov't.
2013	140,240	N. Central Texas Council of Gov't.
2014	142,210	N. Central Texas Council of Gov't.
2015	142,230	N. Central Texas Council of Gov't.
2016	142,950	N. Central Texas Council of Gov't.
2017	142,950	N. Central Texas Council of Gov't.
2018	143,060	N. Central Texas Council of Gov't.

ECONOMIC

Products manufactured by the Mesquite industrial sector include architectural and ornamental metal products, ophthalmic lenses, sheet metal products, lighting fixtures, paint, polyethylene film, electric furnaces, terrazzo tiles, and adhesives, ready-mixed concrete products, printed products, aluminum and steel building materials, machine metal products, innerspring bedding, plastic advertising specialties, soft drinks, polyethylene containers, garments, aluminum castings, corrugated fiber containers, color televisions sets, electronic telephone switching equipment, wooden office fixtures and vehicle wiring apparatus.

In addition, the City continues to develop the Skyline Industrial Park. Skyline Industrial Park is currently over 1,000 acres in size and is home to the largest concentration of industries on the east side of the Dallas/Fort Worth Metroplex. Employers range in size from the small manufacturer employing less than 10 people to United Parcel Service which employs over 2,000 people.

LABOR FORCE

City of Mesquite employment figures, as reported by the Texas Employment Commission, are as follows:

	Annual <u>2017</u>	Annual <u>2016</u>	Annual <u>2015</u>	Annual <u>2014</u>	Annual <u>2013</u>
Civilian Labor Force	78,258	76,114	73,427	73,687	73,614
Total Employed	75,159	73,082	70,257	69,654	68,723
Unemployed	3,099	3,032	3,170	4,033	4,891
% Unemployment	4.0%	4.0%	4.3%	5.5%	6.6%
% Unemployment (State of Texas)	4.4%	4.6%	4.5%	5.1%	6.2%

Source: Texas Workforce Commission

Major employers in the City and the number of employees are set forth in the following table:

<u>Company Name</u>	<u>Nature of Business</u>	Number of <u>Employees</u>
Mesquite ISD	Education	4,000
Town East Mall	Shopping Center	2,750
United Parcel Service Inc	Postal Carrier	2,300
Dallas Regional Medical Center	Health Care	1,500
City of Mesquite	Public Administration	1,200
Eastfield College	Education	900
Pepsi Beverages Co	Manufacturing	600
Wal-Mart Supercenter	Retail	500
Baker Drywall	Construction	450
Orora Visual	Commercial Printer	420

Source: GIS Planning (a date company) and the City of Mesquite Economic Development Division, Business Retention and Expansion data collected by in-person interviews.

TRANSPORTATION

Four major highways cross through the Mesquite City Limits: Interstate Highways 20, 30 and 635 and U.S. Highway 80. These highways provide convenient access into the City. In addition, highway transportation is furnished by State Highway 352, (which connects with IH, 635) and Military Parkway, a divided four-lane boulevard providing access to downtown Dallas. The City is also well served by a railroad intermodal facility. Air transportation facilities include the City's municipal airport as well as convenient access to Dallas-Fort Worth International Airport and Dallas Love Field.

SHOPPING CENTERS

Town East Mall, the first multi-level, air-conditioned regional shopping center in the Dallas-Tarrant County area, contains more than 1,200,000 square feet of floor space under one roof and houses four major department stores and approximately 170 smaller stores and shops. A paved parking area sufficient to handle 7,000 automobiles at one time is provided. Also, several residential shopping centers are located throughout the City.

FINANCIAL INSTITUTIONS

Mesquite is home to the following financial institutions: Wells Fargo Bank, First State and Savings Bank, Chase Bank; BBVA Compass; Woodforest National Bank, Bank of America, Guaranty Bank; as well as other financial institutions.

EDUCATION

Mesquite Independent School District serves most of the City, encompassing approximately 59.41 square miles. Its western and southern boundaries are coterminous with the Dallas Independent School District, and it is bounded on the north and east by the Garland Independent School District, the Sunnyvale Independent School District and the Kaufman County Line.

Scholastic enumeration of the District:

1997-98 School Term - 30,774	2007-08 School Term - 36,597
1998-99 School Term - 31,533	2008-09 School Term - 36,972
1999-00 School Term - 31,834	2009-10 School Term - 37,284
2000-01 School Term - 32,408	2010-11 School Term - 37,732
2001-02 School Term - 33,164	2011-12 School Term - 38,245
2002-03 School Term - 33,892	2012-13 School Term - 39,048
2003-04 School Term - 34,368	2013-14 School Term - 39,793
2004-05 School Term - 34,818	2014-15 School Term - 40,140
2005-06 School Term - 35,686	2015-16 School Term - 40,510
2006-07 School Term - 35,984	2016-17 School Term - 41,000

There are 48 school buildings in the Mesquite Independent School District (34 elementary, 8 middle, 5 senior high and 1 alternative and the Mesquite Academy) and over 4,900 employees. Elementary 33 is currently under construction. A master plan of development of the District will increase District facilities to 35 elementary schools, 10 middle schools and 5 senior high schools.

This District owns and operates its own FM radio station, a 500 foot broadcast tower and a 2,500 Megahertz 16-channel television station equipped to produce filmed, live, or taped programs on all four channels simultaneously, with a receiver in every classroom in the District. The station includes offices and studios as well as mechanical facilities.

DALLAS COUNTY COMMUNITY COLLEGE

The Dallas County Community College District acquired 245 acres in Mesquite for the location of the first suburban campus in its county-wide system. The facility, known as Eastfield College, opened in September 1970, and enrollment is approximately 14,300 each year.

HOSPITALS

There is one hospital in Mesquite, which employs approximately 1,500 staff personnel.

BUILDING PERMITS

Building Permits issued in the City of Mesquite for the last 10 completed years are as follows:

Year Ended	New Commerical		New Residential		Other*	Total Value
	Number of Units	Amount	Number of Units	Amount	Value	
2008	22	\$ 25,001,509	67	\$ 8,294,962	\$ 68,883,101	\$ 102,179,572
2009	14	11,424,590	81	7,850,209	71,917,367	91,192,166
2010	7	22,050,000	41	5,059,542	51,113,470	78,223,012
2011	8	7,065,000	33	4,426,630	31,280,369	42,771,999
2012	15	9,850,505	35	2,814,355	52,008,565	64,673,425
2013	12	6,645,556	24	2,502,498	60,142,194	69,290,248
2014	13	14,285,000	18	2,085,055	62,586,745	78,956,800
2015	13	18,451,310	27	3,437,217	57,490,512	79,379,039
2016	13	39,403,500	35	6,969,737	144,401,369	190,774,606
2017	17	57,714,401	70	18,928,753	310,826,836	387,469,990

* Other includes schools, churches, city building repairs and alterations and swimming pools, fences and signs.

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APPENDIX C

**EXCERPTS FROM THE
CITY OF MESQUITE, TEXAS
ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Mesquite, 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

The Honorable Mayor and Members of the City Council
City of Mesquite, Texas
Mesquite, 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 Mesquite, Texas (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 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 City'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 City'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 of Mesquite, Texas, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund and the housing grants special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension and other postemployment benefit 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, combining and individual fund statements, budget and actual schedules, statistical section, the schedule of expenditures of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the schedule of expenditures of state awards, 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 combining and individual fund statements, budget and actual schedules and schedule of expenditures of federal awards are 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 combining and individual fund statements, budget and actual schedules and schedule of expenditures of federal awards information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections and schedule of expenditures of state awards 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated April 12, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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.

BKD, LLP

Dallas, Texas
April 12, 2018

MESQUITE

T E X A S
Real. Texas. Flavor.

City of Mesquite, Texas
Management's Discussion and Analysis (Unaudited)
For the Year Ended September 30, 2017

As management of the City of Mesquite, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$219.9 million (net position). Within the total net position, unrestricted is a \$46.7 million deficit.
- The City's total net position increased by \$3.1 million this fiscal year. Governmental activities which receive taxes and other non-exchange revenues, decreased \$10.0 million and business type activities increased by \$13.1 million.
- As of the close of the current fiscal year, the City of Mesquite's governmental funds reported combined ending fund balances of \$78.1 million, a decrease of \$16.6 million from the prior year due primarily to increased activities for capital improvements. Of this amount, \$18.3 million is available for spending subject to the City's self-imposed limitations by management for intended use.
- At year-end, the unassigned fund balance for the General Fund was \$18.3 million and total fund balance was \$20.2 million. Total fund balance represents approximately 18.3 percent of expenditures and transfers out and exceeds the 15 percent required by the City's adopted fund balance policy. On a current financial resources basis, total fund balance for the General Fund increased \$2.0 million which was primarily the result of revenue resources coming in higher than budgeted.
- The City's debt, excluding premiums, decreased by \$1.3 million during this current fiscal year. The City issued government obligation refunding and certificate of obligation debt for street reconstruction, capital replacement, municipal building improvements, as well as revenue bonded debt for water and sewer improvements. Scheduled payments, and refundings in 2017 exceeded current year issuances.
- The Group Medical Insurance Internal Service fund continued to experience high claims while working on recovering from a negative fund balance. The City implemented a multi-year strategy for major plan changes to bring the fund balance back to a positive position. In addition to the previous year's changes which included changing the plan administrator, the City increased deductibles and out-of-pocket maximums, provided no City contribution to pre-65 retiree HSA accounts and implemented a spousal surcharge when a spouse is available to be covered by another plan but instead selects the City's plan.
- The City experienced lower number of claims this year in its General Liability Internal Service fund. The City will continue to work on eliminating the deficit fund balance through increased insurance rates to user departments.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Mesquite's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide

financial statements, 2) fund financial statements, and 3) notes to the 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 a private sector business. One of the most important questions asked about the City's finances is, "Is the City of Mesquite in a better financial position at the end of this fiscal year compared to last year?" The government-wide financial statements report information about the City as a whole and about its activities in a way that helps to answer this question. Other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's streets to assess the overall health or financial condition of the City.

The statement of net position presents information on all of the City's assets and liabilities and deferred inflows/outflow of resources with the difference 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 is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from the functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Governmental activities include most of the City's basic services such as fire, police, code compliance, library, parks and recreation, and community services as well as general government activities. The business-type activities of the City include water and sewer, drainage utility, municipal airport services, and municipal golf course.

Fund financial statements. A fund is a grouping of related 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 current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar 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 balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains ten 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, Housing Grants Special Revenue, Local Finance Capital Project, and Bond Finance Capital Project funds, all of which are major funds. Data from the other six governmental funds are combined into a single, aggregated presentation titled Other Governmental Funds. Individual fund data for these non-major other governmental funds is provided in the form of combining statements and individual statements and schedules section of this report.

The City adopts an annual appropriated budget for the General and the Housing Grants Special Revenue funds, which are presented as part of the basic financial statements to demonstrate compliance with these budgets.

Proprietary funds. The City maintains two 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, drainage utility, municipal golf course and municipal airport operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its group health insurance and general liability insurance programs. Both of these programs are predominantly governmental activities; however, as they benefit both governmental and business-type activities, current year results have been allocated by function 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 and Drainage Utility funds since both are considered to be major funds of the City. The non-major funds are the Municipal Golf Course and the Municipal Airport. Conversely, both of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major funds and the internal service funds is provided in the form of combining statements elsewhere in 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 reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund entitled the Tax Clearing fund. As the City collects ad valorem taxes for both the City and the Mesquite Independent School District, a separate legal entity, funds are held in the agency account until amounts due each government can be determined and distributed. The basic financial statements include a statement of fiduciary assets and liabilities. The accounting used for this fiduciary fund is much like that used for proprietary funds.

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 can be found immediately following the basic financial statements.

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 benefits to its employees and other post employment benefits. Required supplementary information immediately follows the notes to the basic financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Mesquite, assets and deferred outflows exceeded liabilities and deferred inflows by \$219.9 million as of September 30, 2017.

The largest portion of the City's net position (116 percent) reflects its investment in capital assets (e.g., land, buildings, equipment, improvements, infrastructure and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for 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.

City of Mesquite's Net Position (in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 93,350	\$ 108,505	\$ 61,495	\$ 53,175	\$ 154,845	\$ 161,680
Capital assets	253,606	236,496	201,732	192,107	455,338	428,603
Total assets	<u>346,956</u>	<u>345,001</u>	<u>263,227</u>	<u>245,282</u>	<u>610,183</u>	<u>590,283</u>
Deferred outflow of resources	27,698	32,797	3,751	3,381	31,449	36,178
Long-term liabilities outstanding	306,585	301,066	91,131	87,942	397,716	389,008
Other liabilities	11,718	9,892	8,550	6,848	20,268	16,740
Total liabilities	<u>318,303</u>	<u>310,958</u>	<u>99,681</u>	<u>94,790</u>	<u>417,984</u>	<u>405,748</u>
Deferred inflow of resources	3,163	3,599	567	286	3,730	3,885
Net investment in capital assets	119,708	119,854	139,837	131,551	259,545	251,405
Restricted net position	23,620	9,199	3,507	3,387	27,127	12,586
Unrestricted net position	(90,141)	(65,812)	23,387	18,647	(66,754)	(47,165)
Total net position	<u>\$ 53,187</u>	<u>\$ 63,241</u>	<u>\$ 166,731</u>	<u>\$ 153,585</u>	<u>\$ 219,918</u>	<u>\$ 216,826</u>

Within the total net position, unrestricted is a \$46.7 million deficit. An additional portion of the City's net position (5 percent) represents resources that are subject to external restriction on how they may be used.

The current and other assets decreased in the governmental activities by \$15.2 million and in the business-type activities increased by \$8.3 million. The decrease in the governmental activities assets is primarily due to a reduction in pooled cash and investments used in the construction of assets and partially offset by an increase in net receivables. Increase in the business-type activities is primarily due to an increase in pooled cash and investments and net receivables as a result of current year operations..

The City's total liabilities increased by \$12.2 million due primarily to the increase in net pension liability and payables related to construction, and the majority of the deferred amounts are for pension related items.

Analysis of the City's Operations. Governmental and Business-type activities increased the City's net position by \$3.1 million. The key elements of this decrease and the prior year results are as follows:

**City of Mesquite's Change in Net Position
(in Thousands)**

	Governmental Activities		Business-type Activities		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 33,586	\$ 33,936	\$ 70,112	\$ 65,020	\$ 103,698	\$ 98,956
Operating grants and contributions	14,995	14,052	66	23	15,061	14,075
Capital grants and contributions	1,125	603	1,025	674	2,150	1,277
General revenues:						
Ad valorem taxes	44,479	38,328	-	-	44,479	38,328
Gross receipts taxes	7,698	7,806	-	-	7,698	7,806
Sales taxes	45,476	44,761	-	-	45,476	44,761
Sale of capital assets	257	-	60	38	317	38
Investment income	741	391	339	180	1,080	571
Total revenues	<u>148,357</u>	<u>139,877</u>	<u>71,602</u>	<u>65,935</u>	<u>219,959</u>	<u>205,812</u>
Expenses:						
General government	38,015	35,751	-	-	38,015	35,751
Fire services	28,820	27,167	-	-	28,820	27,167
Police services	36,382	35,090	-	-	36,382	35,090
Public works	20,007	19,722	-	-	20,007	19,722
Planning & community development	3,294	2,991	-	-	3,294	2,991
Housing & community services	15,981	15,425	-	-	15,981	15,425
Library services	2,168	2,064	-	-	2,168	2,064
Parks and recreation	9,805	12,252	-	-	9,805	12,252
Interest on long-term debt	6,081	5,092	-	-	6,081	5,092
Water and sewer	-	-	51,545	49,822	51,545	49,822
Drainage utility	-	-	1,829	1,876	1,829	1,876
Non major funds	-	-	2,940	1,900	2,940	1,900
Total expenses	<u>160,553</u>	<u>155,554</u>	<u>56,314</u>	<u>53,598</u>	<u>216,867</u>	<u>209,152</u>
Increase (decrease) in net position before transfers	(12,196)	(15,677)	15,288	12,337	3,092	(3,340)
Transfers	<u>2,142</u>	<u>5,235</u>	<u>(2,142)</u>	<u>(5,235)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(10,054)	(10,442)	13,146	7,102	3,092	(3,340)
Net position - Beginning	<u>63,241</u>	<u>73,683</u>	<u>153,585</u>	<u>146,483</u>	<u>216,826</u>	<u>220,166</u>
Net position - Ending	<u>\$ 53,187</u>	<u>\$ 63,241</u>	<u>\$ 166,731</u>	<u>\$ 153,585</u>	<u>\$ 219,918</u>	<u>\$ 216,826</u>

Governmental Activities

Governmental activities decreased the City of Mesquite's net position by \$10.1 million.

The City's program revenues from governmental activities increased approximately \$1.1 million (2.3 percent) as compared to the prior year. Charges for services decreased approximately \$350 thousand, operating grants and contributions increased approximately \$943 thousand and capital grants and contributions increased approximately \$522 thousand.

Operating grants and contributions increased \$943 thousand primarily due to increased funding for the Housing Voucher Program. The increase of \$522 thousand in capital grants and contributions is due to additional developer contributions received in fiscal year 2017.

General revenues of the City's governmental activities increased \$7.4 million (8.1 percent) during the year. General revenue from property taxes increased \$6.1 million due to increased property tax values for the year. Sales tax revenues increased \$715 thousand due to improvements in the economy. Gross receipts tax revenue decreased \$108 thousand due to decreased activity from electricity, gas and cable.

Expenses for the City's governmental activities experienced a net increase of \$5.0 million (3.2 percent) compared with the prior fiscal year. The major increases were in General Government, \$2.3 million, Police Services, \$1.3 million, and Fire Services, \$1.7 million.

- General government increased primarily due to the net pension expense adjustment required by the GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* reporting requirement and a 2 percent merit increase to all employees.
- Police services increased due to a 2 percent merit increase to all employees, and overtime due to vacant positions.
- Fire services increased due to a 2 percent merit increase to all employees, training for new recruits and overtime due to vacant positions.
- Parks and recreation services decreased primarily due to moving the municipal golf operations to a separate fund that is no longer a governmental activity.

Business-type Activities

Business-type activities increased the City of Mesquite's net position by \$13.1 million.

The City's overall revenues for business-type activities increased by \$5.7 million (8.6 percent) during the fiscal year. The majority of the program revenues for the City's business-type activities are from its water and sewer operations. Water and sewer customer charges increased \$3.8 million due to an eight percent rate increase offset by a slight decrease in consumption of 5.49%. In addition, establishing an enterprise fund for the municipal golf fund increased customer charges by \$1.0 million. Capital grants and contributions increased \$324 thousand. The increase in capital grants and contributions was primarily due to more contributions from developer deposits for the Water Sewer fund and Drainage Utility District fund as a result of new development.

Expenses attributable to the business-type activities increased approximately \$2.7 million (5.1 percent) this fiscal year. The increase is mainly due to increased costs of \$1.8 million for purchasing treated water and wastewater pretreatment. The remainder of the increase is due to an increase pension expense of \$926

thousand as a result of GASB 68. Net transfers out for fiscal year 2017 were less than fiscal year 2016 by \$3.1 million due to the capital contributions to the golf fund from the general fund.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds. The focus of the City of Mesquite'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 at the end of the fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$78.1 million. Approximately 23.5 percent of this total amount (\$18.3 million) constitutes unassigned fund balance. The remainder of the fund balance is comprised of \$1.9 million for non-spendable, which represents funds committed to pay for prepaid and inventory items, \$55.8 million for restricted, which represents funds restricted for specific purposes by their providers (such as grantors, bondholders, and higher levels of government), and \$2.1 million for assigned, which represents amounts the City intends to use for specific purposes (such as encumbrances, promotion of tourism and capital projects). The fund balance for all governmental funds decreased by \$16.6 million from the previous fiscal year. This overall decrease is explained below individually by fund.

The General Fund is the chief operating fund of the City of Mesquite. At the end of the current fiscal year, unassigned fund balance of the General fund was \$18.3 million while the total fund balance was at \$20.2 million. The total fund balance increased by \$2.0 million. As a measure of the General Fund's liquidity, it may be useful to compare both the unassigned fund balance and total fund balance to total fund expenditures and net transfers in/out. Unassigned fund balance represents 17.5 percent of total General Fund expenditures and net transfers in/out, while the total fund balance represents 19.3 percent of that same amount. By the City's adopted fund balance policy, fund balance is required to be maintained at 15 percent of General Fund expenditures.

In the General Fund, total revenues increased \$5.1 million from the prior year.

- Ad valorem taxes increased \$6.1 million due to an increase in assessed property values.
- Charges for services decreased \$1.1 million mainly due to sales and user fees for the golf course removed from the General Fund and set up in an Enterprise Fund.

On the expenditure side, the actual expenditures increased \$2.2 million.

- Police services increased \$1.8 million due to a 2 percent merit increase to all employees, equipment purchases of Taser equipment, a WAVE portable alarm system, and overtime due to vacant positions.
- Fire services increased \$992 thousand due to overtime for vacant positions, required merit and step increases.
- Parks and Recreation decreased \$882 thousand due to setting up the new Enterprise Fund for the municipal golf course.
- Remaining increase due to 2 percent merit increase to other departments.

Net transfers out were more in fiscal year 2017 by \$2.8 million. This is due to an increase in transfer for scheduled debt service payments.

The Housing Grants Fund is a major special revenue fund used to account for funds awarded the City by the U. S. Department of Housing and Urban Development under their housing assistance program. The fund balance is \$1.3 million at the end of the year. Fund balance increased by \$259 thousand due to increased funding from the grant program.

The Local Finance capital projects fund is reported as a major fund in fiscal year 2017 and is used to account for capital project expenditures from the proceeds of local revenue sources. Fund balance at year end is \$17.1 million, \$15.6 million of which is restricted for various capital projects and specified spending and \$1.6 million is assigned for other capital projects identified by the City. The fund balance increased \$2.4 million which is due to timing fluctuations of capital project spending from year to year. Project spending carries over from year to year depending on the scheduled activity.

The Bond Finance capital projects fund is a major fund used to account for capital project expenditures from the proceeds of governmental debt. See the Capital Asset section for highlights on project spending. Fund balance at year end is \$25.4 million, all of which is restricted for use for the capital projects approved within the various bond issues. The fund balance decreased \$19.5 million which is due to timing fluctuations of issuing of bonds versus capital project spending from year to year and the street bond rehabilitation program.

Proprietary funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the Water and Sewer fund at the end of the year amounted to \$24.2 million and the Drainage Utility District amounted to \$4.9 million. The change in unrestricted net position for both funds was an increase of \$9.3 million in the Water/Sewer Fund and a decrease of \$294 thousand in the Drainage Utility District Fund. The factors concerning the finances of the Water and Sewer fund have already been addressed in the discussion of the City of Mesquite's business-type activities. The Drainage Utility District fund operating results were consistent with prior year except for an increase in customer charges of \$170 thousand. The increase in customer charges was due to updating the commercial account's impervious areas and billing for drainage only on inactive water/sewer accounts.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City made revisions to the original appropriations approved by the City Council. Overall, these changes resulted in an increase in budgeted revenues and transfers in by \$814 thousand and a decrease in expenditures and transfers outs of \$345 thousand from the original budget. The increase in budgeted revenues was to reflect increased collections of ad valorem tax revenue during the year by approximately \$45 thousand, an increase in Licenses and Permits activity of \$18 thousand, an increase in fines and forfeitures activity of \$55 thousand, an increase in investments activity of \$24 thousand, an increase in charges for services for \$152 thousand and an increase in other revenue for the Medicaid reimbursement program administered by the Texas Health and Human Services Commission of \$520 thousand.

The main increases in budgeted expenditures were in fire services of \$905 thousand, public works of \$628 thousand and housing and community services of \$67 thousand. These increases were offset with decreases in general government expenditures of \$2 million as a result of reallocation of the other expenditure category for Council funded budget initiatives to the proper spending category, police services of \$351 thousand and planning and community development of \$63 thousand. The increases in fire services is due to overtime to cover for vacancies in positions and the increases in public works and housing and community services is related to the City's initiative to improve neighborhood appearances and conditions.

The main budget variances as compared to actual were more revenues of \$1.5 million and more expenditures of \$379 thousand. The increase in revenues were in licenses and permits activity of \$184 thousand, fines and forfeitures of \$229 thousand, charges for services of \$530 thousand, intergovernmental of \$108 thousand and contributions and donations of \$93 thousand. These increases consisted of increased activity in ambulance services, waste collection/disposal services, engineering planning services, and building permits. The remaining increase was due to additional revenue in sales tax of \$501 thousand and ad valorem tax of \$129 thousand.

Reduction of expenditures were primarily due to a savings in general government of \$606 thousand by transferring costs related to the municipal golf course to an enterprise fund, and vacant positions. This savings was offset with increases in police services of \$1.2 million and fire services of \$174 thousand for overtime due to vacancies and training time of all staff regarding new software system for Police and Fire operations and parks and recreation of \$224 thousand primarily due to less funding from the Quality of Life 4B Fund for park operations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2017, the City had over \$455.3 million (net of accumulated depreciation) invested in capital assets for its governmental and business-type activities in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. The total increase in the City of Mesquite's net investment in capital assets was 6.2 percent for the current fiscal year.

City of Mesquite's Capital Assets (Net of Depreciation, in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	\$ 23,549	\$ 24,849	\$ 12,183	\$ 10,503	\$ 35,732	\$ 35,352
Construction in progress	18,591	12,240	13,880	9,027	32,471	21,267
Buildings	69,237	72,214	6,826	6,486	76,063	78,700
Infrastructure	114,080	100,475	162,800	161,303	276,880	261,778
Improvements	10,700	9,613	1,778	262	12,478	9,875
Equipment	17,449	17,105	4,265	4,526	21,714	21,631
Totals	<u>\$ 253,606</u>	<u>\$ 236,496</u>	<u>\$ 201,732</u>	<u>\$ 192,107</u>	<u>\$ 455,338</u>	<u>\$ 428,603</u>

Major capital asset events during the current fiscal year include the following:

- Approximately \$33.9 million was expended for capital projects in 2017 and \$27.6 million was completed and placed into service.
- Over \$26 million was expended for residential street renovations, alley and sanitary sewer reconstruction projects, Franklin Drive micro-surfacing project, ambulance remount and engine replacement, a public safety radio system and CAD software upgrade as well as continuing work on the Gus Thomason project. Completed and placed into service was \$21.5 million.

- Approximately \$5.3 million was expended on Parks and Recreation capital projects for Florence Recreation Center and Vanston Park, renovations to Debusk Park and Range Park, shade structures for Camp Rorie and City Lake Aquatic Center, park system equipment, and transportation projects. Completed and placed into service was \$4.0 million.
- Over \$7.8 million of infrastructure, improvements, and equipment was expended on the water and sewer system capital projects and \$5.8 was completed and placed into service.

Additional information on the City of Mesquite's capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

Debt Administration

At year-end, the City had \$241.9 million in net bonded debt outstanding. Of this total amount, \$160.8 million or 66.5 percent is comprised of bonded debt backed by the full faith and credit of the City. The remainder of the City's debt represents bonds secured by specified revenue sources (i.e., revenue bonds).

City of Mesquite's Outstanding Net Bonded Debt General Obligation and Revenue Bonds (in Thousands)

	Governmental Activities		Business-type Activities		Totals	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
General obligation	\$ 82,210	\$ 79,340	\$ -	\$ -	\$ 82,210	\$ 79,340
Certificates of obligation	69,235	74,945	-	-	69,235	74,945
Premium on refunding	9,385	8,522	4,376	3,345	13,761	11,867
Revenue bonds	<u>-</u>	<u>-</u>	<u>76,725</u>	<u>75,165</u>	<u>76,725</u>	<u>75,165</u>
Totals	<u>\$ 160,830</u>	<u>\$ 162,807</u>	<u>\$ 81,101</u>	<u>\$ 78,510</u>	<u>\$ 241,931</u>	<u>\$ 241,317</u>

During the fiscal year, the City had three debt issuances. The first debt issue was for \$7.6 million in general obligation debt to advance refund prior tax exempt bonds. The second debt issue was for \$8.3 million of certificate of obligation debt for constructing and improving streets, roads, and alleys including related drainage, signalization, landscaping, lighting and signage, major repairs and renovations to existing municipal buildings, acquisition of equipment and vehicles for various City departments, acquisition of computer equipment and software for various City departments, and paying for legal, fiscal, engineering and other professional fees in connection with such projects. The third debt issue was for \$12.5 million of revenue bonds for water and sewer improvements as well as to refund prior water and sewer debt issues.

Standard and Poor's Rating Services assigned its 'AA' long-term rating to the city's series 2017 general obligation refunding bonds and series 2017 combination tax and limited surplus revenue certificates of obligation. In addition, Standard and Poor's affirmed its 'AA' long-term and underlying rating on the city's outstanding general obligation debt. Standard and Poor's Rating Services assigned its 'AA' rating and stable outlook to the city's series 2017 waterworks and sewer system revenue refunding and improvement bonds. At the same time, Standard and Poor's affirmed its 'AA' rating on the city's existing system revenue debt.

Moody's Investor Services, Inc. assigned its 'Aa2' long-term rating to the city's series 2017 general obligation refunding bonds and series 2017 combination tax and limited surplus revenue certificates of obligation. In addition, Moody's affirmed its 'Aa2' long-term and underlying rating on the city's outstanding general obligation debt. Moody's assigned its 'Aa2' rating to the city's series 2017 waterworks and sewer system revenue refunding and improvement bonds. At the same time, Moody's affirmed its 'Aa2' rating on the city's existing system revenue debt.

Additional information on the City's long-term bonded debt can be found in Note 8 of the Notes to the Basic Financial Statements.

Pensions and Retiree Health Care

Pensions and retiree health care continue to receive negative media attention as governments around the nation struggle to properly fund these commitments. The City is committed to providing programs in these areas that are fair to both the employees and taxpayers and that can be sustained over the long term.

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous standard measure that can be used to compare the City's pension liabilities to other governments around the nation. The funding valuation is important as the actuarial methods used including strategies for repaying any unfunded actuarial accrued liabilities combined with the City's history of making those contributions provides insights regarding the City's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves including the first schedule of the Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, the City's financial statements reflect a Net Pension Liability as of September 30, 2017 of \$125,826,170, which is 182.8 percent of the City's annual covered payroll of \$68,843,479.

Retiree health care's actuarially accrued liability has been calculated in accordance with GASB Statement No.45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", to be \$5,191,139 as of September 30, 2017, an increase of \$371,791 from the previous valuation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The financial forecast over the next five years calls for slow to moderate growth highlighted by a more stable housing market boosted by low inventories and high sales prices. With local sales tax collections remaining strong but expected to level off in 2018, new revenues will continue to depend on tax roll growth. The city's growth in property tax has averaged just under 5 percent.

Fiscal year 2018 marks the second year of implementing a hybrid form of the budgeting process known as Budgeting for Outcomes. The City has started to transform its operations and culture under a performance management framework with the next steps involving greater citizen participation and community engagement.

In the 2017-18 budget General Fund revenues and transfers in are projected to increase by 3.0 percent from the 2016-17 final budget with the majority of this increase coming from property tax. General property tax revenue (Ad valorem tax revenue) is determined by two major factors: the total assessed property value established by the Dallas Central Appraisal District and the tax rate set by City Council. Certified assessed

valuations increased 8.17 percent over the preceding year. The City's adopted tax rate is set at \$0.687 per \$100 of assessed valuation. General sales tax receipts have continued to trend upward from the 2016-17 budget. Based on historical patterns, it is expected to begin leveling off during fiscal year 2018 to an approximate growth of 1 percent per year. This revenue source comprises 28.5 percent of General Fund revenues and transfers in and is the most volatile and subject to change based on the economy. The 2017-18 budget includes other modest increases and decreases to some of the other revenue line items that make up the remaining change from the previous year.

General Fund expenditures and transfers out are budgeted at a 3.5 percent increase over the 2016-17 final budget. The 2017-18 budget includes a 2% raise for eligible General Government employees and eligible public safety employees. In addition, a TMRS contribution rate increase, 5% step increases for 32 firefighters and 45 police officers with less than five years of service have been included in the budget. The budget includes new service and programs such as a Neighborhood Vitality division, and a Multi-year plan for I-20 TIF/PID development. There are other increases and decreases between the expenditure categories that offset each other to create the overall budget increase.

Total fund balance for the General Fund is projected to increase by 1.19 percent in fiscal year 2018. The projected ending fund balance is approximately 16.48 percent of budgeted expenditures and transfers out which is greater than the required minimum set by the City's fund balance policy of 15 percent.

The Water and Sewer Fund budget includes rate increases for both water and sewer charges to cover increased costs for treated water and wastewater treatment charges. The water and sewer rates are set to increase by 6 percent in base rates and tiered consumption rates which will be sufficient to meet the City's 1.5 bond coverage requirement and 90-days working capital reserve.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Finance Department, Attn: Accounting Manager, at P. O. Box 850137, Mesquite, Texas 75185-0137, call (972) 216-6219 or e-mail at shaynes@cityofmesquite.com.

City of Mesquite, Texas

**Statement of Net Position
September 30, 2017**

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
ASSETS:			
Pooled cash and investments	\$ 70,557,811	\$ 50,613,942	\$ 121,171,753
Receivables (net of allowance for uncollectibles)	20,280,820	11,627,686	31,908,506
Internal balances	1,139,832	(1,139,832)	-
Inventory	974,026	372,917	1,346,943
Prepays and other assets	359,182	-	359,182
Accrued interest	38,607	20,268	58,875
Capital assets-			
Land and construction in progress	42,140,490	26,062,975	68,203,465
Other capital assets (net of accumulated depreciation)	<u>211,465,115</u>	<u>175,669,202</u>	<u>387,134,317</u>
Total Assets	<u>346,955,883</u>	<u>263,227,158</u>	<u>610,183,041</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding	2,602,435	1,245,624	3,848,059
Deferred pension contributions	5,923,948	480,466	6,404,414
Difference in expected and actual experience	-	4,941	4,941
Difference in assumption changes - pension	2,097,408	161,207	2,258,615
Difference in projected and actual earnings on pension assets	16,948,268	1,314,498	18,262,766
Change in proportional share	<u>125,810</u>	<u>544,671</u>	<u>670,481</u>
Total Deferred Outflows of Resources	<u>27,697,869</u>	<u>3,751,407</u>	<u>31,449,276</u>
LIABILITIES:			
Accounts payable	10,488,787	4,508,326	14,997,113
Accrued interest payable	719,283	252,058	971,341
Deposits and other liabilities	746,545	3,789,661	4,536,206
Long-term liabilities:			
Due within one year:			
Bonds payable	14,808,544	6,966,689	21,775,233
Notes payable	578,096	-	578,096
Accrued compensated absences	7,215,282	284,938	7,500,220
Estimated claims payable	1,921,060	-	1,921,060
Due in more than one year:			
Bonds payable	146,021,757	74,134,488	220,156,245
Net other post employment benefit (OPEB) liability	5,191,139	-	5,191,139
Net pension liability	116,916,581	8,909,589	125,826,170
Accrued compensated absences	12,236,904	835,275	13,072,179
Estimated claims payable	<u>1,459,412</u>	<u>-</u>	<u>1,459,412</u>
Total Liabilities	<u>318,303,390</u>	<u>99,681,024</u>	<u>417,984,414</u>
DEFERRED INFLOWS OF RESOURCES:			
Deferred gain on refunding	3,804	-	3,804
Difference in projected and actual earnings on pension assets	-	4,033	4,033
Difference in assumption changes - pension	-	36,448	36,448
Difference in expected and actual pension experience	2,788,914	226,058	3,014,972
Change in proportional share	<u>370,286</u>	<u>300,195</u>	<u>670,481</u>
Total Deferred Inflows of Resources	<u>3,163,004</u>	<u>566,734</u>	<u>3,729,738</u>
NET POSITION:			
Net investment in capital assets	119,707,816	139,837,286	259,545,102
Restricted for:			
Capital projects	6,086,768	-	6,086,768
Local finance projects	15,585,506	-	15,585,506
Housing grants	1,348,771	-	1,348,771
Debt service	599,174	3,507,105	4,106,279
Unrestricted	<u>(90,140,677)</u>	<u>23,386,416</u>	<u>(66,754,261)</u>
Total Net Position	<u>\$ 53,187,358</u>	<u>\$ 166,730,807</u>	<u>\$ 219,918,165</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Activities
For the Year Ended September 30, 2017**

		Program Revenues		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
FUNCTION / PROGRAM ACTIVITIES:				
Governmental activities:				
General government	\$ 38,014,718	\$ 7,158,428	\$ 232,045	\$ -
Fire services	28,820,398	2,185,335	12,537	-
Police services	36,381,699	5,222,557	198,425	110,331
Public works	20,006,902	9,002,211	-	830,122
Planning and community development	3,293,918	7,758,868	179,013	-
Housing and community services	15,981,035	168,042	14,124,733	-
Library services	2,168,598	72,146	14,347	-
Parks and recreation	9,804,985	2,018,033	234,284	184,323
Interest on long-term debt	6,081,038	-	-	-
Total governmental activities	<u>160,553,291</u>	<u>33,585,620</u>	<u>14,995,384</u>	<u>1,124,776</u>
Business-type activities:				
Water and sewer	51,545,558	63,465,144	64,901	729,339
Drainage utility	1,829,033	3,965,465	-	295,448
Non-major other enterprise funds	2,939,770	2,681,237	1,720	-
Total business-type activities	<u>56,314,361</u>	<u>70,111,846</u>	<u>66,621</u>	<u>1,024,787</u>
Total function / program activities	<u>\$ 216,867,652</u>	<u>\$ 103,697,466</u>	<u>\$ 15,062,005</u>	<u>\$ 2,149,563</u>
General revenues:				
Ad valorem taxes				
Gross receipts taxes				
Sales taxes				
Gain on sale of capital assets				
Investment income				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning				
Net position - ending				

The accompanying notes are an integral part of this statement.

Net (Expenses) Revenues and Changes in Net Position

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
\$ (30,624,245)	\$ -	\$ (30,624,245)
(26,622,526)	-	(26,622,526)
(30,850,386)	-	(30,850,386)
(10,174,569)	-	(10,174,569)
4,643,963	-	4,643,963
(1,688,260)	-	(1,688,260)
(2,082,105)	-	(2,082,105)
(7,368,345)	-	(7,368,345)
<u>(6,081,038)</u>	<u>-</u>	<u>(6,081,038)</u>
<u>(110,847,511)</u>	<u>-</u>	<u>(110,847,511)</u>
-	12,713,826	12,713,826
-	2,431,880	2,431,880
<u>-</u>	<u>(256,813)</u>	<u>(256,813)</u>
<u>-</u>	<u>14,888,893</u>	<u>14,888,893</u>
<u>(110,847,511)</u>	<u>14,888,893</u>	<u>(95,958,618)</u>
44,478,511	-	44,478,511
7,697,720	-	7,697,720
45,476,442	-	45,476,442
257,074	60,052	317,126
741,295	339,370	1,080,665
<u>2,142,644</u>	<u>(2,142,644)</u>	<u>-</u>
<u>100,793,686</u>	<u>(1,743,222)</u>	<u>99,050,464</u>
(10,053,825)	13,145,671	3,091,846
<u>63,241,183</u>	<u>153,585,136</u>	<u>216,826,319</u>
<u>\$ 53,187,358</u>	<u>\$ 166,730,807</u>	<u>\$ 219,918,165</u>

City of Mesquite, Texas

**Balance Sheet - Governmental Funds
September 30, 2017**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Bond Finance</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:						
Pooled cash and investments	\$ 7,523,571	\$ 1,365,027	\$ 17,270,341	\$ 30,563,043	\$ 12,597,643	\$ 69,319,625
Receivables (net of allowance):						
Accounts receivable	7,550,117	82,185	249,629	-	51,162	7,933,093
Ad valorem taxes	1,487,423	-	-	-	-	1,487,423
Other taxes receivable	1,911,695	-	-	-	60,958	1,972,653
Note receivable	804,560	-	-	-	-	804,560
Intergovernmental	5,809,482	-	-	-	2,273,609	8,083,091
Due from other funds	3,950,667	-	-	-	-	3,950,667
Inventory	974,026	-	-	-	-	974,026
Prepays and other assets	34,507	-	-	-	-	34,507
Accrued interest	9,864	570	6,973	15,459	5,212	38,078
	<u>30,055,912</u>	<u>1,447,782</u>	<u>17,526,943</u>	<u>30,578,502</u>	<u>14,988,584</u>	<u>94,597,723</u>
Total Assets						
	<u>\$ 30,055,912</u>	<u>\$ 1,447,782</u>	<u>\$ 17,526,943</u>	<u>\$ 30,578,502</u>	<u>\$ 14,988,584</u>	<u>\$ 94,597,723</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
Accounts payable	\$ 3,806,663	\$ 16,826	\$ 58,145	\$ 4,765,877	\$ 838,493	\$ 9,486,004
Retainage payable	-	-	-	379,641	59,009	438,650
Deposits	317,056	-	278,590	-	150,899	746,545
Due to other funds	-	-	-	-	49,941	49,941
	<u>4,123,719</u>	<u>16,826</u>	<u>336,735</u>	<u>5,145,518</u>	<u>1,098,342</u>	<u>10,721,140</u>
Total Liabilities						
	<u>4,123,719</u>	<u>16,826</u>	<u>336,735</u>	<u>5,145,518</u>	<u>1,098,342</u>	<u>10,721,140</u>
DEFERRED INFLOWS OF RESOURCES:						
Unavailable revenue	<u>5,702,216</u>	<u>82,185</u>	<u>22,200</u>	<u>-</u>	<u>-</u>	<u>5,806,601</u>
Fund Balances:						
Nonspendable	1,813,093	-	-	-	101,112	1,914,205
Restricted	-	1,348,771	15,585,506	25,432,984	13,378,418	55,745,679
Assigned	104,595	-	1,582,502	-	410,712	2,097,809
Unassigned	<u>18,312,289</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,312,289</u>
Total Fund Balances	<u>20,229,977</u>	<u>1,348,771</u>	<u>17,168,008</u>	<u>25,432,984</u>	<u>13,890,242</u>	<u>78,069,982</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 30,055,912</u>	<u>\$ 1,447,782</u>	<u>\$ 17,526,943</u>	<u>\$ 30,578,502</u>	<u>\$ 14,988,584</u>	<u>\$ 94,597,723</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Reconciliation of the Balance Sheet
of Governmental Funds
To the Statement of Net Position
As of September 30, 2017**

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

Total fund balance per balance sheet	\$ 78,069,982
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	253,605,605
Other long-term assets less related uncollectibles are not available to pay for current period expenditures and therefore are reported as unavailable revenues in the governmental funds.	5,806,601
Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. A significant portion of the internal service fund's net position (deficit) is included in the governmental activities in the statement of net position.	(5,142,109)
Accrued interest payable on long-term debt does not require current financial resources and therefore is not reported as a liability in the balance sheet of governmental funds.	(719,283)
Long-term liabilities, including bonds payable and net pension liability (and the related deferred inflows and deferred outflows) are not due and payable in the current period and therefore are not reported as liabilities, deferred outflows or deferred inflows in the governmental funds. Long-term liabilities consist of:	
General obligation bonds payable	(82,210,000)
Certificate of obligation bonds payable	(69,235,000)
Notes Payable	(578,096)
Deferred charge on refunding	2,602,435
Deferred gain on refunding	(3,804)
Unamortized premiums/discounts on bonds	(9,385,301)
Net other post employment benefit (OPEB) liability	(5,191,139)
Net pension liability	(116,916,581)
Deferred pension contributions	5,923,948
Difference in assumption changes - pension	2,097,408
Difference in projected and actual earnings on pension plan assets	16,948,268
Difference in expected and actual pension experience	(2,788,914)
Net change in proportional share	(244,476)
Accrued compensated absences	<u>(19,452,186)</u>
	<u>(278,433,438)</u>
Net position of governmental activities	<u>\$ 53,187,358</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2017

	General	Housing Grants	Local Finance	Bond Finance	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Taxes-						
Ad valorem	\$ 44,458,568	\$ -	\$ -	\$ -	\$ -	\$ 44,458,568
Gross receipts	7,446,414	-	-	-	251,306	7,697,720
Sales	33,020,884	-	-	-	12,455,558	45,476,442
Licenses and permits	2,364,665	-	-	-	34,380	2,399,045
Fines and forfeitures	3,095,807	-	-	-	676,092	3,771,899
Investment income	247,343	9,720	89,673	290,249	96,020	733,005
Charges for services	14,232,844	-	5,991,038	-	1,078,019	21,301,901
Intergovernmental	212,144	13,102,894	227,289	-	1,661,826	15,204,153
Contributions and donations	133,402	-	-	-	212,125	345,527
Other revenues	1,186,833	143,807	167,154	-	38,985	1,536,779
Total Revenues	106,398,904	13,256,421	6,475,154	290,249	16,504,311	142,925,039
EXPENDITURES:						
Current-						
General government	12,831,507	-	779,699	423,313	1,280,939	15,315,458
Fire services	26,537,481	-	374,860	578,918	81,289	27,572,548
Police services	34,015,588	-	665,272	677,534	1,548,974	36,907,368
Public works	12,230,519	-	599,759	568,820	790,367	14,189,465
Planning and community development	2,443,364	-	16,122	32,790	681,008	3,173,284
Library services	2,041,203	-	-	1,143	12,223	2,054,569
Parks and recreation	1,862,499	-	-	44,317	6,218,698	8,125,514
Housing and community services	2,600,451	12,847,023	-	39,829	513,508	16,000,811
Capital outlay	-	-	1,230,749	26,050,719	6,171,789	33,453,257
Debt service						
Principal	-	-	555,327	-	10,630,000	11,185,327
Interest and fiscal charges	-	-	46,470	-	6,231,379	6,277,849
Bond issuance costs	-	-	-	170,272	109,064	279,336
Total Expenditures	94,562,612	12,847,023	4,268,258	28,587,655	34,269,238	174,534,786
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	11,836,292	409,398	2,206,896	(28,297,406)	(17,764,927)	(31,609,747)
OTHER FINANCING SOURCES (USES):						
Transfers in	5,750,000	-	1,147,874	-	17,477,559	24,375,433
Transfers out	(15,889,874)	(150,000)	(908,175)	(2,751)	(1,432,081)	(18,382,881)
Issuance of debt	-	-	-	8,285,000	-	8,285,000
Issuance of refunding debt	-	-	-	7,600,000	-	7,600,000
Premium on bonds issued	-	-	-	1,477,154	-	1,477,154
Payment to refunding bond agent	-	-	-	(8,606,647)	-	(8,606,647)
Gain on sale of capital assets	257,074	-	-	-	-	257,074
Total Other Financing Sources (Uses)	(9,882,800)	(150,000)	239,699	8,752,756	16,045,478	15,005,133
NET CHANGE IN FUND BALANCES	1,953,492	259,398	2,446,595	(19,544,650)	(1,719,449)	(16,604,614)
FUND BALANCES AT BEGINNING OF YEAR	18,276,485	1,089,373	14,721,413	44,977,634	15,609,691	94,674,596
FUND BALANCES AT END OF YEAR	\$ 20,229,977	\$ 1,348,771	\$ 17,168,008	\$ 25,432,984	\$ 13,890,242	\$ 78,069,982

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended September 30, 2017**

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

Net change in fund balance - total governmental funds		\$ (16,604,614)
<p>All payments for other post employment benefits for the year are recorded as expenditures. However, in the government-wide statement of activities only the actuarially required contribution is considered an expense and accrued as a liability in the Statement of Net Position. This adjustment is to recognize the change in the net other post employment benefits (OPEB) asset/liability.</p>		
		(371,791)
<p>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 capital outlay exceeds depreciation in the current period.</p>		
	Capital outlay expenditures	33,453,258
	Depreciation expense	<u>(13,006,852)</u>
		20,446,406
<p>The net effect of various transactions involving capital assets (i.e. sales, trade-ins, donations, and transfers to business-type activities) is to decrease net position.</p>		
		(3,851,515)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This adjustment is to recognize contributions of capital assets by developers.</p>		
		546,218
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in deferred inflows of resources.</p>		
		(692,424)
<p>The issuance of long-term debt (e.g. bond proceeds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
	Principal amount of debt issued	(15,885,000)
	Refunded bond debt amortization	(260,288)
	Principal amount of debt paid to bondholders/refunding bond agents	18,725,000
	Principal amount of notes paid	587,912
	Net change in accrued interest payable	(102,544)
	Premium on bonds issued	(1,477,154)
	Net deferred offering charges and related debt issuance items	<u>1,125,221</u>
		2,713,147
<p>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 adjustment is to reflect the net change in accrued compensated absences.</p>		
		(381,439)
<p>Current year pension expenditures are reported on the fiscal year basis in the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows and inflows of resources balances.</p>		
		(11,418,660)
<p>Internal service funds are used by management to charge the costs of health claims and general liability to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities.</p>		
		<u>(439,153)</u>
Change in net position of governmental activities		<u>\$ (10,053,825)</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

General Fund

**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended September 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes-				
Ad valorem	\$ 44,285,000	\$ 44,330,000	\$ 44,458,568	\$ 128,568
Gross receipts	7,560,000	7,560,000	7,446,414	(113,586)
Sales	32,520,000	32,520,000	33,020,884	500,884
Licenses and permits	2,163,500	2,181,100	2,364,665	183,565
Fines and forfeitures	2,812,000	2,867,000	3,095,807	228,807
Investment income	220,000	244,000	247,343	3,343
Charges for services	13,550,500	13,702,600	14,232,844	530,244
Intergovernmental	104,000	104,000	212,144	108,144
Contributions and donations	40,000	40,000	133,402	93,402
Other revenues	824,200	1,344,500	1,186,833	(157,667)
TOTAL REVENUES	<u>104,079,200</u>	<u>104,893,200</u>	<u>106,398,904</u>	<u>1,505,704</u>
EXPENDITURES:				
General government	15,442,998	13,437,201	12,831,507	605,694
Fire services	25,458,743	26,363,339	26,537,481	(174,142)
Police services	33,211,428	32,860,002	34,015,588	(1,155,586)
Public works	12,081,631	12,709,706	12,230,519	479,187
Planning and community development	2,502,418	2,439,919	2,443,364	(3,445)
Library services	2,093,638	2,085,824	2,041,203	44,621
Parks and recreation	1,632,135	1,638,101	1,862,499	(224,398)
Housing and community services	2,582,180	2,649,614	2,600,451	49,163
TOTAL EXPENDITURES	<u>95,005,171</u>	<u>94,183,706</u>	<u>94,562,612</u>	<u>(378,906)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>9,074,029</u>	<u>10,709,494</u>	<u>11,836,292</u>	<u>1,126,798</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	5,750,000	5,750,000	5,750,000	-
Transfer out	(14,800,000)	(15,966,300)	(15,889,874)	76,426
Gain on sale of capital assets	-	-	257,074	257,074
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,050,000)</u>	<u>(10,216,300)</u>	<u>(9,882,800)</u>	<u>333,500</u>
NET CHANGE IN FUND BALANCE	<u>\$ 24,029</u>	<u>\$ 493,194</u>	<u>1,953,492</u>	<u>\$ 1,460,298</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>18,276,485</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 20,229,977</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Housing Grants Special Revenue Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended September 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Investment income	\$ 3,300	\$ 5,300	\$ 9,720	\$ 4,420
Intergovernmental	12,563,000	12,937,800	13,102,894	165,094
Other revenues	-	-	143,807	143,807
	<u>12,566,300</u>	<u>12,943,100</u>	<u>13,256,421</u>	<u>313,321</u>
TOTAL REVENUES				
EXPENDITURES:				
Current-				
Housing and community services	<u>12,205,250</u>	<u>12,590,047</u>	<u>12,847,023</u>	<u>(256,976)</u>
	<u>12,205,250</u>	<u>12,590,047</u>	<u>12,847,023</u>	<u>(256,976)</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES	<u>361,050</u>	<u>353,053</u>	<u>409,398</u>	<u>56,345</u>
OTHER FINANCING USES:				
Transfers out	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
TOTAL OTHER FINANCING USES	<u>(150,000)</u>	<u>(150,000)</u>	<u>(150,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 211,050</u>	<u>\$ 203,053</u>	259,398	<u>\$ 56,345</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>1,089,373</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 1,348,771</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Net Position (Deficit)
Proprietary Funds
September 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Funds		
	Water and Sewer	Drainage Utility District	Other Enterprise Funds	Totals	
ASSETS:					
Current assets:					
Pooled cash and investments	\$ 22,059,682	\$ 5,484,847	\$ 252	\$ 27,544,781	\$ 1,238,186
Restricted pooled cash and investments	22,203,479	201,503	-	22,404,982	-
Receivables (net of allowance for uncollectibles)	10,976,730	557,041	93,915	11,627,686	-
Inventory	318,614	-	54,303	372,917	-
Prepays and other assets	-	-	-	-	324,675
Accrued interest	17,530	2,738	-	20,268	530
Total current assets	<u>55,576,035</u>	<u>6,246,129</u>	<u>148,470</u>	<u>61,970,634</u>	<u>1,563,391</u>
Noncurrent assets:					
Revenue bond reserve-					
Restricted pooled cash and investments	290,331	373,850	-	664,181	-
Capital assets-					
Land and construction in progress	11,643,692	5,019,852	9,399,431	26,062,975	-
Other capital assets (net of accumulated depreciation)	139,378,362	25,280,370	11,010,470	175,669,202	-
Total noncurrent assets	<u>151,312,385</u>	<u>30,674,072</u>	<u>20,409,901</u>	<u>202,396,358</u>	<u>-</u>
Total Assets	<u>206,888,420</u>	<u>36,920,201</u>	<u>20,558,371</u>	<u>264,366,992</u>	<u>1,563,391</u>
DEFERRED OUTFLOW OF RESOURCES:					
Deferred charges on refunding	\$ 1,216,326	\$ 29,298	\$ -	\$ 1,245,624	\$ -
Deferred pension contributions	385,755	30,170	64,541	480,466	-
Difference in expected and actual experience	-	-	4,941	4,941	-
Difference in assumption changes - pension	136,860	13,571	10,776	161,207	-
Change in proportional share	-	24,327	520,344	544,671	-
Difference in projected and actual earnings on pension assets	1,118,805	108,252	87,441	1,314,498	-
Total deferred outflow of resources	<u>2,857,746</u>	<u>205,618</u>	<u>688,043</u>	<u>3,751,407</u>	<u>-</u>
LIABILITIES:					
Current liabilities:					
Accounts payable	2,105,743	628,911	48,692	2,783,346	564,134
Estimated claims payable	-	-	-	-	1,921,060
Due to other funds	-	-	129,583	129,583	3,771,143
Deposits and other liabilities	3,759,179	1,056	29,426	3,789,661	-
Accrued compensated absences	178,459	54,696	51,783	284,938	-
Total current liabilities	<u>6,043,381</u>	<u>684,663</u>	<u>259,484</u>	<u>6,987,528</u>	<u>6,256,337</u>
Current liabilities payable from restricted assets:					
Accounts payable	1,724,982	-	-	1,724,982	-
Accrued interest payable	247,663	4,395	-	252,058	-
Bonds payable	6,510,083	456,606	-	6,966,689	-
Total current liabilities payable from restricted assets	<u>8,482,728</u>	<u>461,001</u>	<u>-</u>	<u>8,943,729</u>	<u>-</u>
Total current liabilities	<u>14,526,109</u>	<u>1,145,664</u>	<u>259,484</u>	<u>15,931,257</u>	<u>6,256,337</u>
Noncurrent liabilities:					
Estimated claims payable	-	-	-	-	1,459,412
Bonds payable	72,948,674	1,185,814	-	74,134,488	-
Accrued compensated absences	724,992	36,158	74,125	835,275	-
Net pension liability	7,587,853	658,607	663,129	8,909,589	-
Total noncurrent liabilities	<u>81,261,519</u>	<u>1,880,579</u>	<u>737,254</u>	<u>83,879,352</u>	<u>1,459,412</u>
Total Liabilities	<u>95,787,628</u>	<u>3,026,243</u>	<u>996,738</u>	<u>99,810,609</u>	<u>7,715,749</u>
DEFERRED INFLOW OF RESOURCES:					
Difference in projected and actual earnings on pension assets	-	-	4,033	4,033	-
Difference in assumption changes - pension	-	-	36,448	36,448	-
Difference in expected and actual experience	195,810	15,745	14,503	226,058	-
Changes in proportional share	182,483	91,271	26,441	300,195	-
Total deferred inflow of resources	<u>378,293</u>	<u>107,016</u>	<u>81,425</u>	<u>566,734</u>	<u>-</u>
NET POSITION (DEFICIT):					
Net investment in capital assets	90,923,129	28,504,256	20,409,901	139,837,286	-
Restricted for debt service	2,965,968	541,137	-	3,507,105	-
Unrestricted	19,691,148	4,947,167	(241,650)	24,396,665	(6,152,358)
Total Net Position (Deficit)	<u>\$ 113,580,245</u>	<u>\$ 33,992,560</u>	<u>\$ 20,168,251</u>	<u>\$ 167,741,056</u>	<u>\$ (6,152,358)</u>
RECONCILIATION TO GOVERNMENT-WIDE STATEMENT OF NET POSITION:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(1,010,249)	
Total Net Position for Business Type Activities				<u>\$ 166,730,807</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Revenues, Expenses, and Changes in Fund Net Position (Deficit)
 Proprietary Funds
 For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Funds		
	Water and Sewer	Drainage Utility District	Other Enterprise Funds	Totals	
Operating revenues:					
Customer charges	\$ 63,465,144	\$ 3,965,465	\$ 2,681,237	\$ 70,111,846	\$ -
Contributions - City	-	-	-	-	12,439,564
Contributions - other	-	-	-	-	2,560,237
Total operating revenues	<u>63,465,144</u>	<u>3,965,465</u>	<u>2,681,237</u>	<u>70,111,846</u>	<u>14,999,801</u>
Operating expenses:					
Personal services	6,940,303	611,490	799,531	8,351,324	-
Supplies	383,017	7,484	875,569	1,266,070	-
Contractual services	36,333,541	203,930	538,105	37,075,576	15,470,799
Depreciation	5,418,872	948,315	726,565	7,093,752	-
Total operating expenses	<u>49,075,733</u>	<u>1,771,219</u>	<u>2,939,770</u>	<u>53,786,722</u>	<u>15,470,799</u>
Operating income (loss)	<u>14,389,411</u>	<u>2,194,246</u>	<u>(258,533)</u>	<u>16,325,124</u>	<u>(470,998)</u>
Nonoperating revenues (expenses):					
Investment income	291,040	48,292	38	339,370	8,290
Gain or loss on sale of capital assets	55,452	-	4,600	60,052	-
Other nonoperating income (expense)	64,901	-	1,720	66,621	-
Interest expense and fiscal charges	(2,446,270)	(57,814)	-	(2,504,084)	-
Total nonoperating revenues (expenses)	<u>(2,034,877)</u>	<u>(9,522)</u>	<u>6,358</u>	<u>(2,038,041)</u>	<u>8,290</u>
Income (loss) before contributions and transfers	12,354,534	2,184,724	(252,175)	14,287,083	(462,708)
Capital contributions	729,339	295,448	3,849,909	4,874,696	-
Transfers in	450,000	-	239,346	689,346	-
Transfers out	(6,265,095)	(217,000)	(199,804)	(6,681,899)	-
Change in net position (deficit)	<u>7,268,778</u>	<u>2,263,172</u>	<u>3,637,276</u>	<u>13,169,226</u>	<u>(462,708)</u>
Total net position (deficit) - beginning of year	<u>106,311,467</u>	<u>31,729,388</u>	<u>16,530,975</u>	<u>154,571,830</u>	<u>(5,689,650)</u>
Total net position (deficit) - ending	<u>\$ 113,580,245</u>	<u>\$ 33,992,560</u>	<u>\$ 20,168,251</u>		<u>\$ (6,152,358)</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				(23,555)	
Change in net position of business-type activities				<u>\$ 13,145,671</u>	

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Major Funds		Non-Major Funds		
	Water and Sewer	Drainage Utility District	Other Enterprise Funds	Totals	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers	\$ 61,312,004	\$ 3,927,709	\$ 2,633,671	\$ 67,873,384	\$ -
Cash received from City funds	-	-	-	-	12,439,564
Cash received from other operating sources	-	-	-	-	2,560,237
Cash paid to suppliers for goods and services	(36,568,218)	(212,543)	(1,436,833)	(38,217,594)	(5,069,502)
Cash paid to employees for services	(6,045,960)	(469,375)	(1,085,426)	(7,600,761)	-
Cash paid to claimants	-	-	-	-	(9,748,818)
Net cash provided by (used for) operating activities	<u>18,697,826</u>	<u>3,245,791</u>	<u>111,412</u>	<u>22,055,029</u>	<u>181,481</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Cash loan from other City funds	450,000	-	82,034	532,034	379,274
Nonoperating income(expense)	64,901	-	1,720	66,621	-
Transfers out to other funds	(6,242,748)	-	(199,804)	(6,442,552)	-
Net cash provided by (used for) noncapital financing activities	<u>(5,727,847)</u>	<u>-</u>	<u>(116,050)</u>	<u>(5,843,897)</u>	<u>379,274</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from the sale of revenue bonds	8,625,000	-	-	8,625,000	-
Proceeds from the sale of capital assets	55,452	-	4,600	60,052	-
Acquisition and construction of capital assets	(7,697,955)	(2,607,272)	-	(10,305,227)	-
Principal paid on revenue bond maturities	(5,585,000)	(435,000)	-	(6,020,000)	-
Interest paid on revenue bonds	(2,505,461)	(61,294)	-	(2,566,755)	-
Bond issuance costs and other debt related activity	(119,687)	-	-	(119,687)	-
Net cash used for capital and related financing activities	<u>(7,227,651)</u>	<u>(3,103,566)</u>	<u>4,600</u>	<u>(10,326,617)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest received on investments	<u>308,093</u>	<u>50,687</u>	<u>38</u>	<u>358,818</u>	<u>8,726</u>
Net cash provided by investing activities	<u>308,093</u>	<u>50,687</u>	<u>38</u>	<u>358,818</u>	<u>8,726</u>
NET INCREASE (DECREASE) IN POOLED CASH AND CASH EQUIVALENTS	6,050,421	192,912	-	6,243,333	569,481
POOLED CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>38,503,071</u>	<u>5,867,288</u>	<u>252</u>	<u>44,370,611</u>	<u>668,706</u>
POOLED CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 44,553,492</u>	<u>\$ 6,060,200</u>	<u>\$ 252</u>	<u>\$ 50,613,944</u>	<u>\$ 1,238,187</u>
RECONCILIATION OF TOTAL POOLED CASH AND CASH EQUIVALENTS:					
Current assets:					
Pooled cash and investments	\$ 22,059,682	\$ 5,484,847	\$ 252	\$ 27,544,781	\$ 1,238,187
Restricted pooled cash and investments	22,203,479	201,503	-	22,404,982	-
Noncurrent assets:					
Revenue bond reserve-pooled cash and investments	<u>290,331</u>	<u>373,850</u>	<u>-</u>	<u>664,181</u>	<u>-</u>
	<u>\$ 44,553,492</u>	<u>\$ 6,060,200</u>	<u>\$ 252</u>	<u>\$ 50,613,944</u>	<u>\$ 1,238,187</u>

(Continued on following page)

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds			Totals	Governmental Activities- Internal Service Funds
	Major Funds	Drainage Utility District	Non-Major Other Enterprise Funds		
	Water and Sewer				
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Operating income (loss)	\$ 14,389,411	\$ 2,194,246	\$ (258,533)	\$ 16,325,124	\$ (470,998)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities-					
Depreciation	5,418,872	948,315	726,565	7,093,752	-
Change in pension expense	926,042	125,099	(369,497)	791,251	-
Changes in assets and liabilities-					
(Increase)decrease in accounts receivable	(2,064,620)	(37,755)	(48,138)	(2,150,513)	-
(Increase) decrease in inventory	(28,663)	-	(22,965)	(51,628)	-
(Increase) decrease in prepaid items	-	-	-	-	113,255
Increase (decrease) in accounts payable	202,051	1,532	14,515	218,098	400,898
Increase (decrease) in claims payable	-	-	-	-	138,326
Increase(decrease) in deposits	(88,520)	-	572	(87,948)	-
Increase(decrease) in accrued compensated absences	(56,747)	15,483	68,893	27,629	-
Total adjustments	4,308,415	1,052,674	369,945	5,840,641	652,479
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 18,697,826	\$ 3,246,920	\$ 111,412	\$ 22,165,765	\$ 181,481
NONCASH CAPITAL ACTIVITIES:					
Contribution of capital assets from developers	\$ 729,339	\$ 295,448	\$ -	\$ 1,024,787	\$ -
Contribution of capital assets from governmental activities	-	-	3,849,908	3,849,908	-
Proceeds from issuance of refunding debt paid directly escrow agent	5,253,782	-	-	5,253,782	-
Principal and fiscal charges paid on refunding debt	(5,253,782)	-	-	(5,253,782)	-
Transfers of capital assets	(22,347)	(217,000)	239,347	-	-
Total noncash capital activities	\$ 706,992	\$ 78,448	\$ 4,089,255	\$ 4,874,695	\$ -

(Concluded)

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
September 30, 2017**

	<u>Agency Fund</u> Tax Clearing Fund
ASSETS:	
Current assets:	
Pooled cash and investments	\$ 118,182
Taxes receivable levied for other governments (net of allowance for uncollectibles)	<u>3,799,931</u>
Total Assets	<u>\$ 3,918,113</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	\$ 118,182
Due to other governments	<u>3,799,931</u>
Total Liabilities	<u>\$ 3,918,113</u>

The accompanying notes are an integral part of this statement.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

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City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Mesquite, Texas (the "City") was incorporated on December 3, 1887. It has been a home rule charter city since August 1953, pursuant to Article XI, Section 5 of the State Constitution. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public services, culture, recreation, and community development.

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:

Reporting Entity-The City is a municipal corporation governed by an elected mayor and six-member Council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

The Quality of Life Corporation (the "Corporation") 4B Sales Tax Special Revenue Fund is presented as a "blended" fund in the financial statements. The Corporation is administered by a seven-member City Council appointed board of directors which are removable by the City Council at any time without cause. No more than four of the seven directors may be City Council members or City of Mesquite employees. Presently, one member of the Board is a City Council member with the remaining six members being residents who are neither City Council members nor City employees. The purpose of the Corporation is to study and fund permissible projects for public safety, transportation or parks and recreation purposes from a one-half of one percent general sales tax. The Corporation's activities are subject to Council approval and are for the exclusive benefit of the City. In this respect, the Corporation acts as a financing authority to obtain resources for the projects. When the project is completed the capital assets are owned by the City not the Corporation. Complete financial statements for the Quality of Life Corporation are available upon request from the City.

Included in the financial statements are the activities of other legally separate entities whose very limited activities have been combined in various governmental funds for financial statement presentation purposes. These include two Tax Increment Financing Districts which provide for public improvements within these districts, the Mesquite Cemetery Board which provides funds to maintain a small cemetery within the City, Historic Mesquite, Inc. which provides funding to maintain historical sites within the City, the Mesquite Arts Council which provides funding for arts and culture to the Mesquite Art Center, and Keep Mesquite Beautiful, Inc. which provides funding for local beautification projects within the City. The City does not have a majority position on these boards, however, the City does have the ability to influence the financial decisions of these groups in that City Council reviews and approves the annual budgets of these entities. The activity of these entities is almost entirely for the benefit of the City as well. Separate financial statements for these entities are not available. Also included in the financial statements are the operating activities of the Mesquite Housing Finance Corporation, the Mesquite Health Facilities Corporation, and the Mesquite Industrial Development Corporation which provide services almost entirely to the primary government. These corporations have substantively the same governing body as the City. The issuance of conduit debt for the corporations is discussed in Note 13. Separate financial statements for these entities are not available.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Government-Wide Financial Statements- The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the reporting entity. These statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The effect of inter-fund activity has been removed from these statements with the exception of some vehicle maintenance charges and management information services provided to user departments. The inter-fund services provided and used are not eliminated in this process of consolidation. Governmental activities, which are partially 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 statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 Mesquite is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the fiscal year. This statement also demonstrates the degree to which the direct expenses of a given activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. 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 activity and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements- Fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All non-major funds are aggregated and presented in a single column. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Mesquite, like other local governments, uses fund accounting to aid financial management and demonstrate legal compliance.

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 useful in evaluating a government's near-term financing requirements.

The City maintains ten governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Housing Grants Special Revenue, Local Finance Capital Project and Bond Finance Capital Project funds, all of which are major funds. Data from the other six 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. Budgetary comparison schedules follow these combining statements for those non-major funds that adopt annual budgets.

Proprietary funds are maintained for enterprise and internal service operations of the City. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Water and Sewer and the Drainage Utility District funds are considered to be major enterprise

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

funds and the Municipal Airport and Golf Course funds are presented in a separate column as the non-major enterprise funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health claims and general liability operations. The activity in these funds is allocated between governmental type activities and business type activities based on proportionate use for presentation in the government wide statements. Both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The resources of these funds are not reflected in the government-wide financial statements because they are not available to support the City's own programs. The City reports only one fiduciary fund, an agency fund used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District. The fiduciary fund, an agency fund, applies the accrual basis of accounting but has no measurement focus.

Measurement Focus and 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. With the economic resources measurement focus, all assets, deferred outflow of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are reported on the statement of net position.

Governmental fund 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. "Measurable" means the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the fiscal year-end except investment income, which is recorded as earned. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and other long term liabilities, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisition under capital leases are reported as other financing sources.

The revenues susceptible to accrual are ad valorem taxes, gross receipts taxes, licensees, charges for services, fines and fees, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year-end on behalf of the City are also recognized as revenue. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or with the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government, as they are deemed immaterial.

Proprietary funds distinguish operating revenues and expenses from non-operating 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

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

sewer, drainage utility and other proprietary operations 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 that do not meet this definition are reported as non-operating revenues and expenses.

The City of Mesquite reports the following major governmental funds:

- The General fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The Housing Grants special revenue fund is used to account for funds awarded the City by the U. S. Department of Housing and Urban Development ("HUD") under their housing assistance program (HAP).
- The Local Finance capital project fund is used to account for financial resources generated from local revenue sources to be expended for various capital projects. This fund includes the resources of the two Tax Increment Financing Districts as well as the Housing Finance, Health Facilities and Industrial Development Corporations. The individual projects within the Local Finance fund are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.
- The Bond Finance capital project fund is used to account for financial resources generated primarily from bond proceeds to be expended for various capital projects. The individual projects are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.

The City of Mesquite reports the following major proprietary funds:

- The Water and Sewer enterprise fund is used to account for the rendering of water and sewer services to the residents and businesses of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operation, maintenance, debt service, and billing and collecting.
- The Drainage Utility District enterprise fund is used to account for those expenditures incurred as a result of the federally mandated National Pollutant Discharge Elimination System ("NPDES") permit program. This federal program requires the City to educate the general public about pollutants and their presence in storm water runoff; adopt a comprehensive storm water ordinance; operate a street sweeping program; design, establish and review storm water drainage improvements; and monitor storm water quality. Funding for the District is from monthly drainage charges to commercial and residential customers, revenue bond proceeds and interest earnings.

Additionally, the City of Mesquite reports the following fiduciary fund:

- An agency fund is used to account for ad valorem taxes collected on behalf of the Mesquite Independent School District.

City of Mesquite, Texas

Notes to Basic Financial Statements

September 30, 2017

Budgetary Data- Budgets are a plan of financial operation providing an estimate of proposed expenditures for a given period and the proposed means of financing them. The budgetary process begins with City department heads (or, in the case of the Quality of Life Corporation, its Board of Directors) developing expenditure budget requests and revenue estimates in April for the fiscal year beginning the following October 1. These requests and estimates are then submitted to the City Manager for review and input. As required by City Charter, the City Manager is to have prepared an annual operating budget by August 15 for the General, Debt Service and certain budgeted Special Revenue funds. The proposed budget is then presented to the City Council for its consideration and adoption through passage of an ordinance.

Between the time the budget is made available to the public and the time it is legally adopted, the City Council provides for several public hearings to gather input from the public. During the public hearings, citizens are encouraged to offer their suggestions and ideas of what programs they would like to be included (or not included) in the budget. During the preparation of the 2016-2017 budget, the City Council conducted three public hearings and held numerous work sessions in an effort to obtain as much citizen input as possible. The adopted budget is reassessed by departments midway through the fiscal year and revenue and expenditure projections are revised. The City Manager then presents these revisions to the City Council for adoption, resulting in what is termed an amended budget. While infrequent, the City Council may amend the budget prior to or after this mid-year review. All revisions to the budget, however, must be adopted by ordinance. Unexpended appropriations lapse at fiscal year-end.

In 2016-2017 the City Council amended the budget in September. Individual amendments were not material in relation to the original appropriations. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that would increase total fund appropriations must be approved by the City Council. Expenditures may not legally exceed budgeted appropriations at the fund level.

Budgets for the General, Debt Service, and the following special revenue funds: Housing Grants, Quality of Life Corporation, Hotel/Motel, Confiscated Drug and Other Grants are legally adopted on a basis consistent with GAAP on the modified accrual basis of accounting. Accordingly, the budgetary comparison statements and schedules present actual expenditures on a basis consistent with the legally adopted budgets as amended. Capital Project funds are budgeted over the life of the project and not on an annual basis; therefore, budgetary data for these funds have not been presented in the financial statements.

Encumbrances- An encumbrance system is maintained in governmental funds to account for unperformed commitments (i.e., purchase orders, contracts, or other forms of legal commitment). All appropriations and encumbrances lapse at fiscal year end, and any valid encumbrances outstanding at fiscal year-end are re-appropriated as part of the subsequent year's budget pursuant to state regulations.

Pooled Cash and Investments- Cash balances of all City funds, excluding the accounts payable account and payroll clearing account are pooled into one bank account in order to maximize investment opportunities. Negative balances, if applicable, incurred in pooled cash at year-end are treated as inter-fund receivables of the General Fund and inter-fund payables of the deficit fund.

Investments purchased with pooled cash are classified as pooled cash and investments in the accompanying government-wide and fund financial statements. Earnings from these investments are allocated monthly to each fund based on each fund's relative month-end cash and investment balance, except for the debt service

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

fund, which is allocated to the General Fund. Investments are recorded at amortized cost, and at fiscal year-end investments with original maturity greater than one year are reflected at fair value on the accompanying government-wide and fund financial statements.

The relationship of an individual fund to the pooled cash and investments account is essentially that of a demand deposit account. Individual funds can withdraw cash from the account as needed, and therefore all equity that the fund has in the pooled cash and investments account is highly liquid. For the purpose of the accompanying statement of cash flows, the City has chosen to reconcile to "pooled cash and investments," as all investments of the funds are regarded as cash equivalents. Deposit and investment risk disclosures are in accordance with GASB Statement No. 40 *Deposit and Investment Risk Disclosures*.

Inter-fund Receivables and Payables- Short-term amounts owed between funds are classified as "Due to/from other funds" in the fund financial statements. On the government-wide statement of net position, payables and receivables within governmental and business-type activities are eliminated and balances between these activities are reported on a single line entitled "internal balances."

Inventory- Inventory is valued at cost using the first-in / first-out ("FIFO") method. Inventories are maintained on a perpetual inventory system and adjustments are made at fiscal year-end based upon a physical count. Inventory consists of expendable supplies held for consumption and are recorded as an expenditure upon consumption in governmental funds.

Prepaid Items- Payments made to vendors for services that will benefit periods beyond September 30, 2017, are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are accounted for on the consumption basis in governmental funds.

Restricted Assets- Proceeds of Water and Sewer Fund and Drainage Utility District Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as both current and noncurrent assets in the City's financial accounting system because their use is limited by applicable bond covenants. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Capital Assets- Capital assets, which includes land, right-of-way, buildings, infrastructure, improvements, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Construction in progress is not depreciated until the assets are placed into service. Interest has not been capitalized during the construction period for proprietary capital assets as such amounts are not material.

The City's capitalization policy requires that assets capitalized have an original cost of \$5,000 or more and a useful life of at least five years. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	25 - 50 years
Infrastructure/improvements	15 - 50 years
Equipment	5 - 20 years

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

Estimated Claims Payable- Property, general liability, and workers' compensation insurance coverage is accounted for in the General Liability Fund, an internal service fund. At year-end, the estimated settlement value of claims reported and of claims incurred but not reported in excess of liability insurance limits is classified as estimated claims payable. Group health insurance is accounted for in the Health Claims Fund, an internal service fund. At year-end, an estimate of unpaid claims that were incurred prior to September 30, 2017 is accrued based on past claims experience.

Accrued Compensated Absences- City employees earn vacation and sick leave in varying amounts. Vacation leave accrues for employees with less than five years of service at the annual rate of 10 working days. Upon attaining five years of service, an additional five working days are awarded annually until 15 years of service when vacation leave is earned at an annual rate of 20 days. Employees with over 25 service years accrue 25 days annually. Any employee leaving the City in good standing following one year of continuous service is paid for accumulated vacation leave not to exceed 20 working days at their current pay rate. Sick leave accrues at an annual rate of 15 working days. Upon termination, unused accumulated sick leave is paid to employees with three to five years of service at one-third, employees with five to six years of service at two-thirds, and six years and over is paid all accumulated sick leave up to a maximum of 90 days. Police and firemen are reimbursed upon termination for all unused accumulated sick leave up to the maximum of 90 days no matter how long they were employed by the City as required by State Civil Service law.

The measurement of the liability for compensated absences was determined by applying a vesting method approach to accumulated vacation and sick leave balances at fiscal year-end and includes additional salary related payments for Social Security, Medicare, and retirement contributions, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*. No liability is recorded in the fund statements of governmental funds unless they have matured, as payment of this liability will not be made with expendable available financial resources unless an employee has terminated employment as of the end of a fiscal year. In the government-wide financial statements and proprietary fund statements, the liability for employees with over 20 years of service is recorded as a current liability as these employees are eligible for retirement regardless of their age.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS'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.

Long-Term Debt- In the government-wide financial statements and the fund level proprietary financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized using the interest method over the life of the bonds. In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources (uses) during the current period. The face amount of debt issued is recorded as other financing sources. Issuance costs are reported as expenditures in the funds receiving the bond proceeds.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Nature and Purpose of Classifications of Fund Equity- Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on Council direction according to the City's fund balance policy. Fund balances classified as non-spendable are resources that cannot be spent because of their form or because they must be maintained intact.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures from other than the assigned purpose will be spent from unassigned fund balance first.

Net Position- In the government-wide financial statements and proprietary funds, net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The net position is reported in three components (1) net investment in capital assets, (2) restricted, and (3) unrestricted. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Deferred Outflows/Inflows of Resources – In addition to assets, the statements of net position and/or balance sheet will sometimes report 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 four items that qualify for reporting in this category:

- Deferred loss on refunding - A deferred loss 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.
- Deferred pension contributions – These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized as a component of pension expense on a closed basis over a five year period beginning with the period in which the difference occurred.
- Difference in assumption changes – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

- Difference in expected and actual experience - pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Difference in proportional share – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they were incurred.

In addition to liabilities, the statements of net financial position and or balance sheet 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 government has three items that qualify for reporting in this category.

- Deferred gain on refunding – 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.
- Difference in expected and actual pension experience – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which the difference occurred.
- Unavailable revenue – This item is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues the following sources: ambulance, ad valorem taxes, court fines and fees, grass and weed mowing, HUD vouchers, and other receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Difference in assumption changes - pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they incurred.
- Difference in proportional share – pension – This difference is deferred and amortized over the average remaining service life of all participants in the pension plan and recorded as a component of pension expense beginning with the period in which they were incurred.

New Accounting Pronouncements – The Governmental Accounting Standards Board (“GASB”) has issued the following new statements to be implemented in future years.

Statement No. 73: Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68

GASB Statement No. 73: Accounting for Financial Reporting for Pension and Related Assets that are not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and 68 was issued in June 2015. The objective of this Statement is to improve the usefulness of information about pensions included in

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement was effective for the City in fiscal year 2017 and did not have a material effect on the City.

Statement No. 74: Financial Reporting for Postemployment Benefit Plans other than Pension Plans

GASB Statement No. 74: Financial Reporting for Postemployment Benefit Plans other than Pension Plans was issued June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement was effective for the City in fiscal year 2017 and did not have a material effect on the City.

Statement No. 75: Accounting and Financial Reporting for Postemployments Benefits Other than Pensions

GASB Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions was issued June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This standard becomes effective in fiscal year 2018.

Statement No. 77: Tax Abatement Disclosures

GASB Statement No. 77: Tax Abatement Disclosures was issued in August 2015. This Statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. This Statement was effective for the City in fiscal year 2017 and did not have a material effect on the City. See footnote 15 for the City's Tax Abatement disclosure.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Statement No. 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

GASB Statement No. 78: Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans was issued in December 2015. This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities, note disclosures, and required supplementary information for pensions that have the characteristics described above. This Statement was effective for the City in fiscal year 2017 and did not have a material effect on the City.

Statement No. 80: Blending Requirements for Certain Component Units

GASB Statement No. 80: Blending Requirements for Certain Components was issued January 2016. This Statement amends the blending requirements of the financial statement presentation of component units of all state and local governments. This additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organization Are Component Units. This Statement was effective for the City in fiscal year 2017 and did not have a material effect on the City.

Statement No. 81: Irrevocable Split-Interest Agreements

GASB Statement No. 81: Irrevocable Split-Interest Agreements was issued March 2016. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liability, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interest in irrevocable split-interest agreements that are administrated by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This standard becomes effective for the City in fiscal year 2018.

Statement No. 82: Pension Issues

GASB Statement No. 82: Pension Issues was issued March 2016. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This standard was effective for the City in fiscal year 2017 and did not have a material effect on the City.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Statement No. 83: Certain Asset Retirement Obligations

GASB Statement No. 83: Certain Asset Retirement Obligations was issued November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets. Other obligations to retire tangible capital assets may arise from contracts or court judgments. This standard becomes effective for the City in fiscal year 2019.

Statement No. 84: Fiduciary Activities

GASB Statement No. 84: Fiduciary Activities was issued January 2017. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary components units and postemployment benefit arrangements that are fiduciary activities. This standard becomes effective for the City in fiscal year 2020.

Statement No. 85: Omnibus 2017

GASB Statement No. 85: Omnibus 2017 addresses practice issues that have arisen during implementation of other GASB standards. Among the topics addressed are blending of component units for a business-type activity that reports in a single column, presentation of goodwill from acquisitions that occurred prior to GASB 69, valuation of money market and certain other investments and certain issues relating to pensions and other postemployment benefits. These updates either provide clarification, correction, or additional guidance on the topics covered. This standard becomes effective for the City in fiscal year 2018.

Statement No. 86: Certain Debt Extinguishment Issues

GASB Statement No. 86: Certain Debt Extinguishment Issues eliminates an inconsistency in the literature related to in-substance defeasance of debt. Under previous guidance, debt could only be considered defeased if there was a refunding. GASB 86 now allows defeasance treatment even if the government uses existing assets and does not issue new debt. However, any resulting gain or loss will be recognized in the period of the defeasance. GASB 86 also includes guidance on handling prepaid insurance in any debt extinguishment. Additionally, there is a new requirement for all in-substance defeasances to disclose any ability to substitute risk-free monetary assets with those that are not. This standard becomes effective for the City in fiscal year 2018.

City of Mesquite, Texas

**Notes to Basic Financial Statements
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Statement No. 87: Leases

GASB Statement No. 87: Leases provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and corresponding liability. The liability will be based on payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months.

Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the city in fiscal year 2021.

2. DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The amounts reflected below include the revenue bond reserve cash and investments reflected on the government-wide and proprietary fund financial statements of net position.

Deposits

At September 30, 2017, the carrying amount of the City's demand deposits and certificates of deposit totaled \$1,240,851 and the bank balance was \$4,087,914. Cash on hand for the City was \$15,647. Cash on hand for the Fiduciary fund was \$118,182.

Investments

The City's investments at September 30, 2017, are:

Investment type	Fair Value	Weighted Average Maturity (Years)
Managed Pools:		
Texpool	\$16,883,822	0.00039
Texstar	18,465,483	0.00042
Texas Class	42,576,444	0.00097
Money Market:		
Wells Fargo (Morgan Stanley)	10,083,561	0.00023
US Agency Notes	31,905,945	0.31272
Total	<u>\$119,915,255</u>	

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from increasing interest rates, the City's investment policy establishes the portfolio's maximum average dollar-weighted maturity to no

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

more than one year. By policy, the City will not directly invest in securities maturing more than three years from the date of purchase.

Credit Risk. The City's investment policy helps minimize credit risk by requiring the City to limit investments to the safest types of securities, pre-qualify the financial institutions and broker/dealers with which the City will do business, and diversify the investment portfolio so that potential losses on individual securities will be minimized. The City's investments in U.S. Agency securities (FHLB, FFCB, FNMA and FHLMC) are rated AA by Standard and Poor's and Aaa by Moody's Investor's Service at the date of purchase. The investment in Texas Local Government Pools (Texpool, Texstar, and Texas Class) carried a credit rating of AAAM by Standard and Poor's as of September 30, 2017. Texpool is overseen by the Texas State Comptroller of Public Accounts, and the fair value is the same as the value of the pool shares. Texstar is overseen by a Governing Board consisting of individuals from participating Government Entities in the pool, and the fair value is the same as the value of the pool shares. Texas Class is overseen by a Board of Trustees consisting of individuals from active participating Government Entities in the pool that are elected by the participants, and the fair value is the same as the value of the pool shares. The City's investments in Morgan Stanley's Money Market fund through Wells Fargo carried a credit rating of AAAM by Standard and Poor's and Aaa-mf by Moody's Investor's Service as of September 30, 2017.

Concentration of Credit Risk. With the exception of U.S. Treasury securities, the City's investment policy limits the amount that may be invested in any single security type. Investment Policy limits investment portfolio to no more than 80% investment pools, 20% certificates of deposit, 50% money market funds, 20% obligations of the state of Texas, its agencies, counties, cities and other political subdivisions and 20% repurchase agreements of the total investment portfolio. As of September 30, 2017, the City's total investments are in the following: Agency issues (26.7%) consisting of FHLB (31.2%), FFCB (25.0%) and FHLMC (43.8%), investment pools (65.0%), and money market funds (8.4%).

Custodial Credit Risk. Pursuant to provisions of both the Texas Public Funds Investment Act and the Public Funds Investment Policy of the City, deposits of the City that exceed the federal depository insurance coverage levels are materially collateralized with securities held by a third party custodian in the City's name. Investments, other than investments that are obligations of the U.S. government, its agencies and instrumentalities, are insured or registered in the City's name and held by a third party custodian. In order to anticipate market changes and to provide a level of security for all funds, the collateralization level will be 102% (on a market value basis) of principal and accrued interest on the deposits.

3. FAIR VALUE OF ASSETS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

City of Mesquite, Texas

**Notes to Basic Financial Statements
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Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Investments by fair value level				
U.S. agency securities	\$ 31,905,945	\$ -	\$ 31,905,945	\$ -
Total investments by fair value level	<u>31,905,945</u>	<u>-</u>	<u>31,905,945</u>	<u>-</u>
Investments measured at net asset value				
Texas CLASS	42,576,444			
TexSTAR	18,465,483			
Money Market Fund	10,083,561			
	<u>71,125,488</u>			
Investment measured at amortized cost				
TexPool	16,883,822			
Total investments	<u>\$ 119,915,255</u>			

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for the applicable external investment pool balances. Additionally, the City has investments in governmental pools as listed above, which are recorded at amortized cost.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At September 30, 2017, no investments here held by the City meeting the Level 3 hierarchy classification.

Investment in State Investment Pools – During the year, the City invested in multiple public fund investment pools, including TexSTAR, TexPool, and Texas CLASS. The fair value of the position of

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

TexClass and TexStar are measured at net asset value and is designed to approximate the share value. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

4. AD VALOREM TAXES

Property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Assessed value represents the appraised value less applicable exemptions authorized by the City Council. Appraised values are established by the Dallas Central Appraisal District and the Kaufman Central Appraisal District at 100% of estimated market value. The total assessed value for the tax roll of January 1, 2016, upon which the 2017 fiscal year levy was based, was \$6,727,941,212. Taxes are due on October 1, immediately following the January 1 lien date and are delinquent after the following January 31st. Penalty and interest is charged at 7% on delinquent taxes beginning February 1, and increases each month to 18% on July 1, additional interest accrues at the rate of 1% each month.

Current tax collections for the year ended September 30, 2017, were \$44,854,333 or 97.04% of the current tax levy and total tax collections (including collections on previous years) were \$45,231,598 or 97.86% of the current tax levy.

In Texas, countywide central appraisal districts are required under the Property Tax Code 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 three 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.

The City Charter does not provide for a debt limit; therefore, no computation of legal debt margin can be made. However, at September 30, 2017, the City had a tax margin of \$1.81300 for every \$100 of valuation based upon a maximum ad valorem tax rate of \$2.50 for every \$100 of valuation imposed by Texas Constitutional law.

5. RECEIVABLES

Receivables at September 30, 2017 for the government's individual major funds, which have receivables and non-major in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

	<u>General</u>	<u>Housing Grants</u>	<u>Local Finance</u>	<u>Water and Sewer</u>	<u>Drainage Utility District</u>	<u>Nonmajor and Other Funds</u>	<u>Total</u>
Receivables:							
Accounts	\$ 18,479,072	\$ 82,185	\$ 249,629	\$ 11,280,780	\$ 575,822	\$ 151,801	\$ 30,819,288
Ad valorem taxes	2,485,282	-	-	-	-	-	2,485,282
Other taxes	1,911,695	-	-	-	-	60,958	1,972,653
Note receivable	804,560	-	-	-	-	-	804,560
Intergovernmental	5,809,482	-	-	-	-	2,273,609	8,083,091
Gross receivables	29,490,091	82,185	249,629	11,280,780	575,822	2,486,368	44,164,874
Less: allowance for uncollectibles	(11,926,814)	-	-	(304,050)	(18,781)	(6,724)	(12,256,369)
Net total receivables	<u>\$ 17,563,277</u>	<u>\$ 82,185</u>	<u>\$ 249,629</u>	<u>\$ 10,976,730</u>	<u>\$ 557,041</u>	<u>\$ 2,479,644</u>	<u>\$ 31,908,505</u>

The governmental funds report unavailable revenues from the following sources:

<u>Source of revenue</u>	<u>Total</u>
General fund - ambulance accounts receivable	\$ 739,685
General fund - ad valorem taxes receivable	1,399,671
General fund - court fines receivable	1,680,995
General fund - accounts receivable, grass and weed mowing	1,881,865
Housing Grants fund - HUD vouchers	82,185
Local Finance capital projects fund - other receivable	22,200
Total unavailable revenues for governmental funds	<u>\$ 5,806,601</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

6. CAPITAL ASSETS

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2017:

	<u>Beginning Balance</u>	<u>Additions and Transfers</u>	<u>Deletions and Transfers</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 24,848,764	\$ 108,600	\$ 1,408,432	\$ 23,548,932
Construction in progress	12,239,534	14,270,091	7,918,068	18,591,557
Total capital assets, not being depreciated	<u>37,088,298</u>	<u>14,378,691</u>	<u>9,326,500</u>	<u>42,140,489</u>
Capital assets, being depreciated:				
Buildings	102,428,514	-	804,093	101,624,421
Infrastructure	246,195,131	18,325,134	414,600	264,105,665
Improvements	20,654,818	3,592,945	1,930,193	22,317,570
Equipment	64,182,885	5,620,773	3,051,316	66,752,342
Total capital assets, being depreciated	<u>433,461,348</u>	<u>27,538,852</u>	<u>6,200,202</u>	<u>454,799,998</u>
Less accumulated depreciation for:				
Buildings	30,213,657	2,413,379	239,761	32,387,275
Infrastructure	145,719,988	4,586,332	279,855	150,026,465
Improvements	11,042,411	899,676	324,060	11,618,027
Equipment	47,077,791	5,107,466	2,882,143	49,303,114
Total accumulated depreciation	<u>234,053,847</u>	<u>13,006,853</u>	<u>3,725,819</u>	<u>243,334,881</u>
Total capital assets, being depreciated, net	<u>199,407,501</u>	<u>14,531,999</u>	<u>2,474,383</u>	<u>211,465,117</u>
Governmental activities capital assets, net	<u>\$ 236,495,799</u>	<u>\$ 28,910,690</u>	<u>\$ 11,800,883</u>	<u>\$ 253,605,606</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 10,502,718	\$ 271,883	\$ (1,408,432)	\$ 12,183,033
Construction in progress	9,026,723	9,346,676	4,493,459	13,879,940
Total capital assets, not being depreciated	<u>19,529,441</u>	<u>9,618,559</u>	<u>3,085,027</u>	<u>26,062,973</u>
Capital assets, being depreciated:				
Buildings	8,994,530	-	(804,093)	9,798,623
Infrastructure	261,955,164	6,978,480	(414,600)	269,348,244
Improvements	542,167	67,187	(1,930,193)	2,539,547
Equipment	10,143,222	714,530	(255,737)	11,113,489
Total capital assets, being depreciated	<u>281,635,083</u>	<u>7,760,197</u>	<u>(3,404,623)</u>	<u>292,799,903</u>
Less accumulated depreciation for:				
Buildings	2,509,457	223,546	(239,761)	2,972,764
Infrastructure	100,651,504	5,616,844	(279,855)	106,548,203
Improvements	279,652	158,430	(324,060)	762,142
Equipment	5,616,848	1,094,933	(135,811)	6,847,592
Total accumulated depreciation	<u>109,057,461</u>	<u>7,093,752</u>	<u>(979,487)</u>	<u>117,130,701</u>
Total capital assets, being depreciated, net	<u>172,577,622</u>	<u>666,445</u>	<u>(2,425,136)</u>	<u>175,669,202</u>
Business-type activities capital assets, net	<u>\$ 192,107,063</u>	<u>\$ 10,285,004</u>	<u>\$ 659,891</u>	<u>\$ 201,732,176</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

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

Governmental activities:	
General government	\$ 2,458,856
Fire services	1,080,806
Police services	1,240,982
Public Services	6,411,195
Development Services	107,644
Library services	114,372
Parks and recreation	1,472,969
Community services	120,028
Total governmental activities	<u>\$ 13,006,853</u>
Business-type activities:	
Water and sewer	\$ 5,418,873
Drainage utility	948,315
Municipal airport	502,189
Golf Course	224,376
Total business-type activities	<u>\$ 7,093,753</u>

Construction Commitments

The City has active construction projects as of September 30, 2017. Projects include street construction primarily in the southeast section of Mesquite, fire improvement as well as improvements in water storage and distribution facilities. Construction in progress has been categorized by the primary revenue source being used to fund the construction as follows:

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

	<u>Spent-to-date</u>	<u>Remaining Construction Commitments</u>
Governmental activities:		
Projects funded by general obligation bonds:		
Streets	\$ 6,896,950	\$ 14,687,072
Fire improvement	7,366,692	2,826,435
Police	4,500	518,027
Parks and recreation	4,078	39,022
Finance	-	9,278
Projects funded by local finance sources:		
Streets	1,107,058	446,905
Parks and recreation	98,786	33,816
Projects funded by general sales tax (4B portion):		
Parks and recreation	1,318,132	1,810,527
Public works	2,128,317	4,514,302
Projects funded by grant funds:		
Police services	-	42,850
Public works	-	92,157
Total governmental activities	<u>\$ 18,924,513</u>	<u>\$ 25,020,391</u>
Business-type activities:		
Projects funded by revenue bonds:		
Water and sewer	\$ 10,459,465	\$ 6,555,733
Drainage utility district	3,381,273	2,458,468
Total business-type activities	<u>\$ 13,840,738</u>	<u>\$ 9,014,201</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Due to/from other funds-

These amounts represent intergovernmental revenue accrued but not received in the Other Grants Special Revenue fund under the “Other Governmental Funds” and amounts for loans to the Airport and Health Claims Funds to cover additional cash needed. The current portion of lending/ borrowing arrangements outstanding at September 30, 2017 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Grants Special Revenue Fund	\$ 49,941
General Fund	Airport Fund	\$ 76,535
General Fund	Health Claims Fund	\$3,771,143
General Fund	Golf Course	\$ 53,048

Transfers-

Transfers were as follows for the fiscal year ended September 30, 2017:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 5,750,000	\$ 15,889,874
Housing Grants	-	150,000
Local Finance	1,147,874	908,175
Bond Finance	-	2,751
Non-Major Governmental Funds	17,477,559	1,432,081
Water and Sewer	450,000	6,265,095
Drainage Utility District	-	217,000
Non-Major Enterprise Fund	239,347	199,804
Internal Service Funds	-	-
	<u>\$ 25,064,780</u>	<u>\$ 25,064,780</u>

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

The transfers were for the following purposes:

Transfer from Fund / Purpose	Transfer to Fund	Amount
General Fund-		
Property tax debt service levy	Debt Service	\$ 14,800,000
Public Safety Projects	Local Finance	1,089,874
Housing Grants Fund-		
Indirect cost charge	General	150,000
Local Finance Fund-		
Impact Fees	Debt service	908,175
Bond Finance Fund-		
Interest Income Allocation	Debt Service	2,751
Non-Major Governmental Funds-		
Hotel / Motel Tax General Obligation		
Debt Allocation	Local Finance	58,000
Other Special Revenue -		
9-1-1 Operations Subsidy	General	900,000
Traffic Enforcement	General	150,000
Mesquite Quality of Life Corporation	Debt service	324,081
Water and Sewer Enterprise Fund-		
Nonoperating administrative and overhead charge	General	4,550,000
General Obligation Debt Allocation	Debt Service	1,692,748
Capital Assets	Golf Course	22,347
Drainage Utility District		
Capital Assets	Golf Course	217,000
Non-Major Enterprise Fund-		
Airport general obligation debt allocation	Debt service	199,804
	Total	\$ 25,064,780

8. LONG-TERM DEBT

Various types of long-term debt have been issued by the City for the acquisition and construction of major capital facilities and equipment as follows:

- General obligation bonds are issued pursuant to voter authorization for infrastructure and facility projects accounted for in a governmental capital project fund. General obligation bonds have also been issued in previous fiscal years to refund prior debt issues. During the year, \$7,600,000 was issued to advance refund prior tax-exempt bonds in order to lower the overall debt service requirements of the City and pay legal, fiscal, and other professional fees in connection with the issuance of the bonds. The City intends to retire this debt, plus interest, from ad valorem taxes. Bonds still outstanding may be called in whole or in part at the City’s option on or after ten years from the date of issuance.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

City intends to retire this debt, plus interest, from ad valorem taxes. Bonds still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.

- Certificate of obligation debt is similar to general obligation bonds in their usage and retirement but do not require voter authorization and are not used for refunding debt. Included in the May 2017 bond sale was \$8,285,000 for (i) constructing and improving streets, roads, alleys and sidewalks including reconstruction of Town East Boulevard and construction and installation of an adjacent pedestrian trail, and related drainage, signalization, landscaping, lighting and signage; (ii) major repairs and renovations to existing municipal buildings including primarily the main library building, maintenance barn at municipal golf course and animal shelter, and installing and constructing fencing and shade structure at the animal shelter; (iii) constructing and equipping a new fire station; (iv) acquisition of equipment and vehicles for Fire, Police, Animal Services, Housing and Community Services, Public Works, Parks and Recreation and other municipal departments (v) acquisition and installation of communications and technology equipment including computer aided dispatch and computer equipment and software for various municipal departments and (vi) paying for legal, fiscal, engineering and other professional fees in connection with such projects. Certificates still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.
- Contractual obligations have been issued in prior years to acquire equipment and will also be repaid from ad valorem property taxes. There were no contractual obligations issued in the current fiscal year.
- Water and sewer revenue bonds are issued to provide funds for certain improvements to the water distribution and wastewater collection systems as well as to refund prior water and sewer debt issues. These bonds are reported in the Water and Sewer fund as the debt will be repaid from revenues of this enterprise fund operation. Included in the May 2017 bond sale was \$4,585,000 to be used for refunding a portion of the City's outstanding waterworks and sewer system debt in order to lower the overall debt service requirements of the City and \$7,970,000 to (i) provide funds for improvements, additions and extension to the system; (ii) fund the additional amount required to be accumulated in the Revenue Reserve Fund as a result of the issuance of the bonds; and (iii) to pay the costs of issuance of the bonds. Bonds still outstanding may be called in whole or in part at the City's option on or after ten years from the date of issuance.
- Municipal drainage utility system revenue bonds have been issued in prior years to provide funds for drainage improvements, including the acquisition and construction of structures, equipment, and facilities for the Drainage Utility District. Debt for this enterprise operation is being repaid from revenues generated from customer charges. The bonds are not subject to optional redemption prior to maturity.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

Long-term bonded debt at September 30, 2017, includes the following individual issues:

<u>Governmental Activities</u>	<u>Issued Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
General Obligation Bonds-					
Series 2008 refunding and improvements	2,115,000	3.50-3.625	02/15/21	250,000	175,000
Series 2009 refunding	4,245,000	2.00-4.60	02/15/29	1,085,000	230,000
Series 2010 refunding	1,320,000	2.00-3.625	2/15/23	985,000	150,000
Series 2011 refunding	12,715,000	2.00-5.00	2/15/28	12,395,000	-
Series 2012 refunding	3,765,000	2.00-3.00	2/15/24	3,420,000	455,000
Series 2013 refunding	7,635,000	2.00-3.00	2/15/25	6,440,000	215,000
Series 2014 refunding	9,080,000	3.00-4.00	2/15/26	7,700,000	610,000
Series 2015 refunding	2,935,000	2.00-3.00	2/15/25	2,335,000	305,000
Series 2016 refunding and improvements	40,565,000	1.75-5.00	2/15/36	40,000,000	2,530,000
Series 2017 refunding	7,600,000	2.50-5.00	2/15/29	7,600,000	-
				<u>82,210,000</u>	<u>4,670,000</u>
Certificate of Obligation Bonds-					
Series 2008	10,070,000	3.50-4.00	02/15/28	1,505,000	555,000
Series 2009	11,260,000	2.00-4.60	02/15/29	2,880,000	605,000
Series 2010	12,340,000	3.00-4.5	02/15/30	9,165,000	550,000
Series 2011	11,575,000	2.00-4.125	02/15/31	7,770,000	425,000
Series 2012	7,235,000	2.00-3.375	02/15/32	5,470,000	435,000
Series 2013	5,450,000	2.00-3.00	02/15/33	3,875,000	360,000
Series 2014	9,715,000	3.00-4.00	02/15/34	8,495,000	355,000
Series 2015	14,835,000	2.00-5.00	02/15/35	12,880,000	735,000
Series 2016	11,815,000	2.00-5.00	02/15/36	8,910,000	650,000
Series 2017	8,285,000	1.00-3.67	02/15/37	8,285,000	3,465,000
				<u>69,235,000</u>	<u>8,135,000</u>
Total governmental activities long-term bonded debt				151,445,000	12,805,000
Add: Net premium/discounts on bonds				9,385,301	2,003,544
Net governmental activities long-term bonded debt				<u>\$ 160,830,301</u>	<u>\$ 14,808,544</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

	<u>Issued Amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Amount Outstanding</u>	<u>Due Within One Year</u>
<u>Business-type Activities-</u>					
Water and Sewer Revenue Bonds-					
Series 2007 improvements	7,670,000	4.00-5.000	03/01/27	-	-
Series 2008 improvements	11,585,000	3.50-4.500	03/01/28	2,030,000	525,000
Series 2009 improvements	8,380,000	2.00-4.600	03/01/29	775,000	380,000
Series 2010 improvements	8,270,000	2.00-4.250	03/01/30	6,045,000	370,000
Series 2011 refunding and improvements	14,240,000	2.00-4.125	03/01/31	8,585,000	1,020,000
Series 2012 refunding and improvements	7,945,000	2.00-3.375	03/01/32	5,685,000	455,000
Series 2013 refunding and improvements	7,090,000	2.00-3.375	03/01/33	5,600,000	565,000
Series 2014 refunding and improvements	11,655,000	3.00-4.000	03/01/34	10,310,000	370,000
Series 2015 refunding and improvements	10,325,000	2.00-5.000	03/01/35	8,430,000	990,000
Series 2016 refunding and improvements	15,785,000	2.00-5.000	03/01/36	15,085,000	1,120,000
Series 2017 refunding and improvements	12,555,000	2.00-5.000	03/01/37	12,555,000	195,000
				<u>75,100,000</u>	<u>5,990,000</u>
Drainage Utility System Revenue Bonds-					
Series 2011 refunding	4,385,000	2.00-3.750	03/01/22	1,625,000	450,000
				<u>1,625,000</u>	<u>450,000</u>
Total business-type activities long-term debt				76,725,000	6,440,000
Add: premium on refunding				4,376,177	520,083
Net business-type activities long-term debt				<u>81,101,177</u>	<u>6,960,083</u>
Net long-term bonded debt				<u>\$ 243,294,320</u>	<u>\$ 18,203,661</u>

Annual debt service requirements to maturity for long-term bonded debt are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	12,805,000	5,657,351	6,440,000	2,894,052
2019	8,760,000	5,297,145	6,345,000	2,554,033
2020	10,315,000	4,996,926	6,150,000	2,348,855
2021	10,500,000	4,668,070	5,780,000	2,155,527
2022	11,375,000	4,290,620	5,580,000	1,971,838
2023-2027	53,240,000	14,654,702	24,110,000	7,055,414
2028-2032	30,320,000	5,382,149	15,465,000	2,772,291
2033-2037	14,130,000	1,038,807	6,855,000	540,038
Total	<u>\$ 151,445,000</u>	<u>\$ 45,985,770</u>	<u>\$ 76,725,000</u>	<u>\$ 22,292,047</u>

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

Advance Refundings- The City's May 2017 bond issues included two advance refundings. Proceeds from the General Obligation Refunding Bond and the Waterworks and Sewer System Revenue Refunding and Improvement Bond issues were used to advance refund and defease in substance certain maturities of the City's existing outstanding bond issuances. The advance refunding allowed the City to recognize savings on future debt payments. The General Obligation refunding resulted in a decrease in total debt service payments of \$707,791 on the new debt over the old debt therefore an economic gain was realized. The Waterworks and Sewer System refunding resulted in a decrease in total debt service payments of \$425,919 of the new debt over the old debt therefore an economic gain was realized. The refunding portion of the issue provided resources to purchase direct obligations of the U. S. government that were placed in a separate irrevocable trust for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position in the government-wide financial statements. The difference between the reacquisition price and the net carrying amount of the old debt (deferred amount on refunding) will be reported as a deferred outflow of resources and recognized as a component of interest expense amortized over the remaining life of the original debt or the life of the new debt, whichever is shorter. The statement of net position on the government-wide financial statements reports this deferred amount as a deferred outflow of resources. The details of the refunding debt transaction were as follows:

	General Obligation Refunding Bonds	Waterworks and Sewer System Revenue Bonds
Amount of new debt issue	\$ 7,600,000	\$ 4,585,000
Add: reoffering premium	1,146,429	776,054
Less: net issuance costs	<u>(139,783)</u>	<u>(69,772)</u>
Reacquisition price	8,606,646	5,291,282
Net carrying amount of old debt	<u>8,094,962</u>	<u>4,982,254</u>
Deferred amount on refunding	<u>\$ 511,684</u>	<u>\$ 309,028</u>
Decrease in total debt service payments of new debt over old debt	<u>\$ 707,791</u>	<u>\$ 425,919</u>
Economic gain on refunding	<u>\$ 595,164</u>	<u>\$ 352,878</u>

In prior years, the City defeased certain general obligation and other bonds by using the proceeds of new bonds to purchase direct obligations of the U. S. government that were placed in separate irrevocable trusts for the purpose of generating resources for all future debt service payments of the debt being refunded. As a result, the refunded bonds are considered to be defeased and the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The principal balance of refunded bonds still

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

outstanding at September 30, 2017 was \$14,665,000 for general obligation bonds and \$9,005,000 for water and sewer bonds.

Notes Payable- The City entered into a loan agreement with the State Infrastructure Bank in the original amount of \$5,615,287 for Mesquite's participation with the State of Texas for the LBJ Corridor Improvements. The interest rate on the note is 4.1%. Debt service payments are being made through available revenues from the Towne Center TIF. The outstanding balance at year end is \$578,096.

The City entered into a revolving loan agreement in the amount of \$555,328 with the State Energy Conservation Office to implement conservation improvements at the Municipal Center. Construction was completed on July 19, 2007 and the loan was set up to amortize over 9.75 years beginning August 31, 2007. The interest rate on the note is 3%. Debt service payments will be made from available operating funds of the government. The outstanding balance at year end is \$180.

Annual debt service requirements through maturity for notes payable are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2018	578,096	23,702
Total	<u>\$ 578,096</u>	<u>\$ 23,702</u>

Compensated Absences – Compensated absences represent the estimated liability for employees' accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General Fund, Housing Grants Fund, Other Grants Fund, and Enterprise Funds based on the assignment of an employee at termination.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

Long-term liabilities activity for the year ended September 30, 2017 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Refundings/ Adjustments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:						
Bonds payable:						
General obligation bonds	\$ 79,340,000	\$ 7,600,000	\$ 2,520,000	\$ (2,210,000)	\$ 82,210,000	\$ 4,670,000
Certificates of obligation	74,945,000	8,285,000	8,110,000	(5,885,000)	69,235,000	8,135,000
Total bonds payable	154,285,000	15,885,000	10,630,000	(8,095,000)	151,445,000	12,805,000
Add: premium on refunding	8,521,721	1,477,154	613,574	-	9,385,301	2,003,544
Total bonds payable	<u>162,806,721</u>	<u>17,362,154</u>	<u>11,243,574</u>	<u>(8,095,000)</u>	<u>160,830,301</u>	<u>14,808,544</u>
Other General Fund long-term liability:						
Notes payable	1,166,008	-	587,912	-	578,096	578,096
Net pension liability	110,169,065	6,747,516	-	-	116,916,581	-
Other post employment benefit (OPEB)	4,819,348	371,791	-	-	5,191,139	-
Accrued compensated absences	19,140,635	1,026,368	714,817	-	19,452,186	7,215,282
Estimated claims payable	<u>2,963,662</u>	<u>13,966,773</u>	<u>13,549,963</u>	<u>-</u>	<u>3,380,472</u>	<u>1,921,060</u>
Total governmental activities	<u>301,065,439</u>	<u>39,474,602</u>	<u>26,096,266</u>	<u>(8,095,000)</u>	<u>306,348,775</u>	<u>24,522,982</u>
Business-type activities:						
Bonds payable:						
Revenue bonds -water/sewer	73,105,000	12,555,000	5,585,000	(4,975,000)	75,100,000	5,990,000
Revenue bonds -drainage	2,060,000	-	435,000	-	1,625,000	450,000
Total revenue bonds payable	75,165,000	12,555,000	6,020,000	(4,975,000)	76,725,000	6,440,000
Add: premium on refunding	3,344,683	1,453,883	422,389	-	4,376,177	520,083
Net revenue bonds payable	78,509,683	14,008,883	6,442,389	(4,975,000)	81,101,177	6,960,083
Capital leases	-	-	-	-	-	-
Net pension liability	8,339,798	569,791	-	-	8,909,589	-
Accrued compensated absences	<u>1,092,583</u>	<u>115,660</u>	<u>88,030</u>	<u>-</u>	<u>1,120,213</u>	<u>284,938</u>
Total business-type activities	<u>87,942,064</u>	<u>14,694,334</u>	<u>6,530,419</u>	<u>(4,975,000)</u>	<u>91,130,979</u>	<u>7,245,021</u>
Total long-term liabilities	<u>\$ 389,007,502</u>	<u>\$ 54,168,936</u>	<u>\$ 32,626,685</u>	<u>\$ (13,070,000)</u>	<u>\$ 397,479,754</u>	<u>\$ 31,768,003</u>

9. RETIREMENT PLAN

Plan Description- The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid agent multiple-employer 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,

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

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 – Benefits, which include retirement, disability and death benefits, depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with 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 two times 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 200% of the employee's accumulated contributions. In addition, the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years
Updated Service Credit	100%, Transfers
Annuity Increases to Retirees	50% of CPI

Members can retire at certain ages, based on the years of service with the City. The Service Retirement Eligibilities for the City are: 5 years/age 60, 20 years/any age.

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

Inactive employees or beneficiaries currently receiving benefits	733
Inactive employees entitled to but not yet receiving benefits	364
Active employees	<u>1,079</u>
	2,176

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

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 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 12.30% for January 2017 through September 2017 and 10.29% for October 2016 through December 2016. The City's contributions to TMRS for the year ended September 30, 2017, were \$8,324,268, and were equal to the required contributions.

Net Pension Liability- The City's net pension liability was measured as of December 31, 2016, and the total pension liability 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 male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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.

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

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 arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

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.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at September 30, 2016	\$ 504,241,810	\$ 385,732,947	\$ 118,508,863
Changes for the year:			
Service cost	11,607,011	-	11,607,011
Interest (on the total pension liability)	33,628,738	-	33,628,738
Difference between expected and actual experience	(265,481)	-	(265,481)
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(23,683,590)	(23,683,590)	-
Administrative expense	-	(294,412)	294,412
Contributions - member	-	7,083,990	(7,083,990)
Contributions - employer	-	4,819,479	(4,819,479)
Net investment income	-	26,059,766	(26,059,766)
Other	-	(15,862)	15,862
Net Changes	21,286,678	13,969,371	7,317,307
Balance at September 30, 2017	\$ 525,528,488	\$ 399,702,318	\$ 125,826,170

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following table presents the sensitivity of the net pension liability to changes in the discount rate when calculating it at 1-percentage-point-lower (5.75%) and 1-percentage-point-higher (7.75%).

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
\$ 196,214,625	\$ 125,826,170	\$ 67,405,591

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately issued TMRS financial report which may be obtained at www.tmrs.com.

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

For the year ended September 30, 2017, the City recognized pension expense of \$20,669,047.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference in expected and actual experience	\$ 4,941	\$ 3,014,972
Difference between projected and actual investment earnings on pension plan investments	18,262,766	4,033
Changes in assumptions	2,258,615	36,448
Change in proportional share	670,481	670,481
Employer contributions subsequent to the measurement date	6,404,414	-
	<u>\$ 27,601,217</u>	<u>\$ 3,725,934</u>

Deferred outflows of resources of \$6,404,414 related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 5,979,477
2019	5,979,477
2020	5,475,733
2021	40,363
2022	(4,181)
Total	<u>\$ 17,470,869</u>

Allocation of Pension Items

The City allocates pension items between governmental activities and business-type activities on the basis of employee payroll funding.

Required Supplementary Information - Required supplementary information for the schedule of changes in net pension liability and related ratios and schedule of contributions is presented immediately following the Notes to the Basic Financial Statements.

10. REGIONAL SYSTEMS FOR WATER SUPPLY AND WASTEWATER TREATMENT

The City secures substantially all of its water supply and sewer services from the North Texas Municipal Water District (the "District"). The District has police, taxation, and eminent domain powers and is authorized to issue revenue bonds with State approval and functions as a political subdivision independent of the City. The District is governed by a 17-member board (the "Board"), the City being authorized by statute to appoint two of those members. The Board has full power and discretion to establish its budget and to set the rates for services it provides by contracts with its member cities and customers. The Board is empowered by statute and contract, or otherwise permitted by law, to discontinue a facility or to enforce payment of an unpaid charge, fee, or rental due to the District. A portion of the outstanding bonds of the District are contract revenue bonds based on contracts with certain member cities of the District. The City provides for the payment of its contractual obligations with the District from revenue generated by its waterworks and sewer systems. Such contractual payments provide for the payment of the principal and interest requirements on specified indebtedness and associated operation and maintenance expenses of the District. Because of the factors mentioned above the District is not included in the City's basic financial statements.

Water Supply- On August 1, 1988, the City entered into a contract with the District whereby the District agreed to provide water supply for the benefit of the City. The provisions of this contract are similar in concept, essence and intent to the provisions of the contract originally entered into on December 12, 1953. In return for this service, the City agreed to pay the District at a rate per 1,000-gallon basis, subject to minimum annual payments which approximated \$19.897 million for the fiscal year ended September 30, 2017.

Wastewater Treatment- On October 1, 1975, the City entered into a contract with the District whereby the District agreed to provide a wastewater treatment and disposal system for the benefit of the City and other cities located in Dallas, Collin, Kaufman and Rockwall Counties, Texas. Each member city annually pays its proportionate share of operating expenses and debt service of the District. The City's annual payment for the year ended September 30, 2017, was approximately \$8.543 million.

11. SELF-INSURANCE

Group Health Insurance- The City established the Group Medical Insurance internal service fund in 1984 to account for the provision of group life and health insurance coverage for employees and their dependents. The City's health insurance program is a "self-insured" plan funded by both the City and participating employees. The City makes a predetermined contribution to the plan each biweekly payroll for group life and health insurance coverage for qualifying City employees and a subsidy toward employee dependent coverage. Employees contribute through payroll deductions for the balance of dependent health insurance coverage. The City's health insurance program includes stop loss coverage with a \$300,000 deductible per individual with an unlimited liability limit per claim. According to the Health Care Reform Act lifetime maximums are no longer allowed. The coverage is consistent with prior years, and settled claims did not exceed this self-insured coverage in fiscal year 2017.

All claims are reviewed and processed by an independent insurance company. The insurance company pays claims based on the health plan, and the City reimburses the insurance company for the amount of each claim paid. The insurance company charges the City a fee for each claim processed.

The Group Medical Insurance internal service fund began the fiscal year with (\$4,478,679) in unrestricted net deficit after inclusion of \$951,034 of estimated outstanding health claims payable. During the year, operating

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

and non-operating expenses exceeded operating and non-operating revenues by \$671,751 resulting in a (\$5,150,430) balance in unrestricted net deficit at year-end. Actual claims paid totaled \$11,901,926. The decrease in net position was due to increased medical claims incurred and administrative fees. The City has continued a contract with an outside firm to assist the City in controlling and monitoring medical claims. The City plans to eliminate the deficit fund balance through proposed plan changes, increased premium charges, and increased City contributions to the plan.

The estimated claims payable of \$1,191,354 reported in the Group Medical Insurance internal service fund is based on the requirements of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* ("GASB No. 10"), which requires that a liability be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2016 and 2017 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End of Fiscal Year Liability
2016	\$ 951,034	\$ 13,907,060	\$ 13,907,060	\$ 951,034
2017	\$ 951,034	\$ 8,574,307	\$ 8,333,987	\$ 1,191,354

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provision for reported claims and for claims incurred but not yet reported is determined by the City.

General Liability 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 1985, the City established the General Liability internal service fund to account for the provision of property, general liability, and workers' compensation insurance. The City's insurance coverage is through scheduled specific policies with large deductibles with the primary carrier being the Texas Municipal League Risk Pool. Under this program, the General Liability Fund provides coverage for up to a maximum of \$10,000 retention for each real & personal property claim and a scheduled limit on coverage, \$10,000 retention for each mobile equipment claim and a scheduled limit on coverage, \$10,000 retention for each auto physical damage claim and a scheduled limit on coverage, \$100,000 retention for each auto catastrophe claim and a \$7,700,000 limit on coverage, \$100,000 retention for each law enforcement claim and a \$5,000,000 limit on coverage, \$100,000 retention for each general liability claim and a \$1,000,000 limit on coverage, \$2,500 retention for each airport hangar-keeper claim and a \$1,000,000 limit on coverage, \$100,000 retention for each auto liability claim and a \$1,000,000 limit on coverage, \$100,000 retention for each errors and omission claim and a \$5,000,000 limit on coverage with a \$10,000,000 annual aggregate, \$300,000 retention for each worker's compensation claim, \$10,000 retention for each crime coverage claim with a \$500,000 limit on coverage, and \$10,000 retention for each storage tank pollution claim with a \$1,000,000 limit on coverage. The General Liability Fund is funded through revenues from participating governmental and proprietary funds of the City. The above coverage is consistent with prior years and settled claims have not exceeded the self insured coverage in any of the past five fiscal years.

The General Liability fund began the fiscal year with unrestricted net position of (\$1,210,971). During the year, operating and non-operating revenues exceeded operating expenses by \$209,043, resulting in a

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

(\$1,001,928) balance in unrestricted net position at year-end. Actual claims paid were \$1,414,831. The estimated claims payable of \$2,189,118 reported in the General Liability internal service fund is based on the requirements of GASB No. 10. The liability for unpaid claims includes allocated loss adjustment expenses. Changes in the fund's claims liability amount in fiscal years 2016 and 2017 were:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Fiscal Year Liability</u>
2016	\$ 2,039,619	\$ 1,909,952	\$ 1,936,943	\$ 2,012,628
2017	\$ 2,012,628	\$ 1,591,321	\$ 1,414,831	\$ 2,189,118

Accrued liabilities include provisions for claims reported and claims incurred but not reported. The provisions for reported claims and for claims incurred but not yet reported are determined by an independent consultant.

12. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the City provides postretirement healthcare benefits to retirees and their dependents through a single-employer defined benefit healthcare plan. These benefits are provided to retired employees under the same plan options as active employees in accordance with City ordinances. For those employees who retired prior to February 1, 2000 the premiums are almost entirely paid by the City, subject to a small cap, until the employee attains age 65. For those employees hired prior to October 1, 2004 who retire after February 1, 2000 with a minimum of ten years of service, the City will pay 4% per year of service (up to 25 years of service) subject to a small cap amount. The City's payment for the retirees' dependents is 2.6% per year of service. Employees hired after October 1, 2004 who retire at age 55 or older with 15 years of service will receive a City medical plan contribution of \$12/month for each year of service. After age 65, retired employees may continue in the City healthcare plan if they pay the premiums or will have the option to enroll in a Medicare Supplement plan and pay the monthly premium associated with the plan.

The City paid approximately \$2.4M in premiums and claims for 362 retired employees and their dependents in fiscal year 2017

Funding Policy – Current retirees contribute to the retiree health care program the total blended premium for active and retired participants. The City contribution to the retiree health care program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contribution rates for fiscal year 2017 were \$5,994. In fiscal year 2017, total retiree contributions were \$1,426,284. The City contributions to the plan for fiscal year 2017, which are equal to claims and premiums paid in excess of premiums collected, were \$2,377,592.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefit (OPEB) cost for the retiree health care program 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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (OPEB)*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount annually contributed to the plan, and the changes in the City's net OPEB obligation to the plan.

City of Mesquite, Texas

**Notes to Basic Financial Statements
September 30, 2017**

Annual required contribution	\$ 2,748,134
Interest adjustment to net OPEB obligation	192,774
Adjustment to ARC	(191,525)
Annual OPEB cost (expense)	<u>2,749,383</u>
Contributions made	<u>(2,377,592)</u>
Increase in net OPEB liability	371,791
Net OPEB liability - beginning of year	<u>4,819,348</u>
Net OPEB liability - end of year	<u><u>\$ 5,191,139</u></u>

The following table shows the assumed annual OPEB cost and net OPEB obligation for the past three years.

Fiscal Year Ended	Discout Rate	Annual OPEB Cost	Cost Contributed	% of Cost Contributed	Net OPEB Liability
9/30/2017	4.50%	\$ 2,749,383	\$ 2,377,592	86.5%	\$ 5,191,139
9/30/2016	4.50%	\$ 3,309,584	\$ 2,619,119	79.1%	\$ 4,819,348
9/30/2015	4.50%	\$ 3,105,603	\$ 1,868,375	60.2%	\$ 4,128,883

Funding Status and Funding Progress – As of September 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$38,947,479, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$63,129,166 and the ratio of UAAL to the covered payroll was 61.7%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions – In the September 30, 2017 actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0% investment rate of return which is a blended rate of the expected long-term investment returns on the plan assets and on the employer’s own investments. An annual inflation rate of 2.5% and an annual aggregate payroll increase of 3% was assumed. A healthcare trend increase of 2.5% was assumed which represents the portion of health care increases to be borne by the City. The UAAL is being amortized at a level percentage of projected payroll. The amortization period is thirty years and is an open period.

Required Supplementary Information - Required supplementary information for the analysis of funding progress is presented immediately following the Notes to the Basic Financial Statements.

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

13. CONTINGENT LIABILITIES

Pending Litigation- Various lawsuits pending against the City involve claims relating to general liability, automobile liability, workers' compensation, civil rights action, and various contractual matters. In the opinion of the City's management, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations.

Arbitrage Rebate Requirements- The Tax Reform Act of 1986 imposes a rebate requirement with respect to some bonds issued by the City. Under this requirement, an amount equal to the sum of (a) the excess of the aggregate amount earned on all investments over the amount that would have been earned if all investments were invested at a rate equal to the yield on the bonds and (b) any income earned on the excess described in (a) is required to be rebated to the United States Treasury, in order for the interest on the bonds to be excluded from federal taxation. Regulations implementing the rebate requirement were released by the Internal Revenue Service on May 12, 1989. Rebateable arbitrage is computed as of each installment computation date. The last computation date for the City was performed for financial information as of June 30, 2016. No rebate liability was due to the federal government. Information for the next computation period is due in May of 2017. Management does not anticipate there will be a material liability once the computation is completed.

Grant Audit- The City receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of City management, such disallowances, if any, will not be significant to the City's financial statements.

Conduit Debt Obligations- From time to time, various legally separate component units of the City have issued bonded debt obligations to provide financial assistance to private-sector entities. The bonds were issued to acquire and construct medical and health facilities (Mesquite Health Facilities Corporation). The bonds are secured by the property financed and are payable solely from payments received on the underlying debt obligations. Upon repayment of the bonds, ownership of the acquired capital assets transfers to the private-sector entity served by the bond issuance. Even though some of the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit debt by component unit at September 30, 2017, is as follows.

Series	Mesquite Health Facilities Corporation
2014	880,000
2014	1,670,000
2014	4,985,000
2014	3,800,000
2014	19,030,000
2016	4,890,000
2016	6,225,000
2016	420,000
2016	3,355,000
2016	815,000
2016	10,500,000
Total	<u>\$ 56,570,000</u>

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Contingent Liability for Service Agreement- The City entered into separate agreements with the North Texas Municipal Water District (the “District”) and Kingsborough Municipal Utility District Nos. 1, 2, 3, 4, and 5 (the “MUDs”) to provide sewer service within the City’s extraterritorial jurisdiction. As a member city of the District, the City’s involvement was required to develop capacity for a wastewater service requirement of 13.1 million gallons per day to service the area. The District has agreed to construct and operate a project known as the Lower East Fork Sewer Interceptor System and obtained financing on August 24, 2006 in the amount of \$19,190,000. The City’s share of the debt service payments on the project is \$105,584 per month over 20 years and is being passed through to the MUDs. The City is not liable for this debt. As additional security for the payments due the City the MUDs agreed to establish, levy, and collect an ad valorem tax on all taxable property within the MUDs.

14. FUND BALANCES

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned fund balance - amounts that are available for any purpose.

City of Mesquite, Texas

Notes to Basic Financial Statements
September 30, 2017

Details of the Governmental Funds fund balances as of year-end are as follows:

Description	General Fund	Housing Grants	Local Finance	Bond Finance	Other Governmental Funds	Total Governmental Funds
Nonspendable:						
Prepays	\$ 34,507	\$ -	\$ -	\$ -	\$ -	\$ 34,507
Inventory	974,026	-	-	-	-	974,026
Cemetery trust principal	-	-	-	-	101,112	101,112
Long-term note receivable	804,560	-	-	-	-	804,560
Total Nonspendable	1,813,093	-	-	-	101,112	1,914,205
Restricted for:						
Debt Retirement	-	-	-	-	599,175	599,175
Purpose of grantors, trustees, and donors	-	1,348,771	-	-	1,342,559	2,691,330
4B Sales Tax projects	-	-	-	-	6,086,769	6,086,769
Promotion of Tourism	-	-	-	-	1,238,109	1,238,109
Law Enforcement	-	-	-	-	3,138,632	3,138,632
Capital Projects	-	-	-	25,432,984	-	25,432,984
Community Access Projects	-	-	-	-	744,838	744,838
Road Surface Repairs	-	-	521,375	-	-	521,375
Tax Increment Financing Districts	-	-	12,125,647	-	-	12,125,647
Hike and Bike Trail	-	-	460,034	-	-	460,034
Developer's Deposits	-	-	1,594,309	-	-	1,594,309
Capital Replacement	-	-	504,479	-	-	504,479
Other Purposes	-	-	379,662	-	228,336	607,998
Total Restricted	-	1,348,771	15,585,506	25,432,984	13,378,418	55,745,679
Assigned to:						
Encumbrances	104,595	-	-	-	-	104,595
Other Capital Projects	-	-	1,524,382	-	-	1,524,382
Other Purposes	-	-	58,120	-	410,712	468,832
Total Assigned	104,595	-	1,582,502	-	410,712	2,097,809
Unassigned	18,312,289	-	-	-	-	18,312,289
TOTAL FUND BALANCES	\$ 20,229,977	\$ 1,348,771	\$ 17,168,008	\$ 25,432,984	\$ 13,890,242	\$ 78,069,982

City Council establishes, modifies and/or rescinds fund balance commitments by passage of an ordinance. Assigned fund balance is established by City Manager based on Council direction according to the City's fund balance policy. Assigned encumbrances of \$104,595 in the General Fund consists of \$41,609 open contracts for professional services and \$62,986 open purchase orders for mowing abatement services and annual supply of fire equipment and vehicle parts.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available. When assigned and unassigned amounts are available, expenditures for other than the assigned purpose will be spent from unassigned fund balance first.

It is the desire of the City to maintain adequate General Fund fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a fund balance policy of 15 percent of General Fund expenditures.

City of Mesquite, Texas

Notes to Basic Financial Statements September 30, 2017

Note 15 – TAX ABATEMENT DISCLOSURES

The City of Mesquite enters into sales tax and property tax abatement agreements with desired businesses under the authority of Chapter 380 of the Texas Local Government Code. These businesses may be manufacturing, office, retail, commercial, or mixed-use projects. The agreements allow the City to refund a portion of property taxes and sales taxes paid, issue incentive payments, and/or reduce fees. The offer of an incentive is tied to an analysis of the impact on community services and to the goals of the community as established by the Mesquite City Council. The City Council has final authority on the implementation of City business incentives.

The City will consider an application for an economic development incentive for any project that would attract new business or industry to the City and/or for any project involving the expansion, modernization, and/or retention of an existing business. However, the City will not grant an incentive unless it will benefit the City and will accomplish the public purpose of promoting local economic development and stimulating business and commercial activity in the City. In the event of default on an agreement, the City does include a clawback provision in the contract.

For the fiscal year ended September 30, 2017, the City of Mesquite had nine economic development agreements that included sales and/or property tax abatement provisions. In total, \$227,320 in sales tax and \$53,063 in property tax was abated.

In addition to tax abatements, the City occasionally makes additional commitments in its economic development incentive agreements. The following additional commitments have been made:

- The City has agreed to install the necessary utilities, drainage, and roadway improvements to service the location of a new 850,000 square foot, state-of-the-art manufacturing facility in which the company intends to invest over \$65 million in the land, building, and business personal property. The City has also agreed to waive development fees in the construction of the building and pay an economic development grant payable of \$1,000,000 (five annual installments of \$200,000) after the capital investment is made.
- The City has agreed to refund all developer fees paid in excess of \$250,000 and all roadway impact fees up to \$500,000 related to a project in which the company intends to invest over \$87 million in new capital improvements and ultimately hire 180 new full-time equivalent employees.

End of Notes to Basic Financial Statements

APPENDIX D

FORM OF BOND COUNSEL'S OPINIONS

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[Form of Bond Counsel Opinion]

[Date]

\$31,475,000
CITY OF MESQUITE, TEXAS
GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS
SERIES 2018

WE HAVE represented the City of Mesquite, Texas (the "City"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF MESQUITE, TEXAS, GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2018, dated May 1, 2018 and issued in the principal amount of \$31,475,000.

The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Ordinance").

WE HAVE represented the City as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City; a deposit agreement (the "Deposit Agreement") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as paying agent/registrar for the obligations being refunded (the "Paying Agent"), the certification of the Paying Agent or financial advisor to the City, verifying the sufficiency of the deposits made with the Paying Agent for defeasance of the obligations being refunded (the "Sufficiency Certificate"); customary certificates of officers, agents and representatives of the City and other public officials and other certified

showings relating to the authorization and issuance of the Bonds. We have further examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, United States Department of Treasury regulations, and rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the City;

(2) A continuing ad valorem tax upon all taxable property within the City, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law, and the total indebtedness of the City, including the Bonds, does not exceed any constitutional, statutory or other limitations; and

(3) Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to a Deposit Agreement entered into between the Issuer and the Paying Agent on the date of delivery of the Bonds and the Sufficiency Certificate, and, therefore, such obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Deposit Agreement.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes; and

(2) The Bonds are not "private activity bonds" within the meaning of the Code, and interest on the Bonds is not subject to the alternative minimum tax.

In providing such opinions, we have relied on representations of the City, the City's financial advisors and the Underwriters of the Bonds with respect to matters solely within the knowledge of the City, the City's financial advisors and the Underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to 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 City as the taxpayer. We observe that the City has covenanted in the Ordinance 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.

Very truly yours,

#5678847.2

[Form of Bond Counsel Opinion]

[Date]

\$16,050,000
CITY OF MESQUITE, TEXAS
COMBINATION TAX AND SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

WE HAVE represented the City of Mesquite, Texas (the "Issuer") as its bond counsel in connection with an issue of certificates of obligation (the "Certificates") described as follows:

CITY OF MESQUITE, TEXAS COMBINATION TAX AND SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018, dated May 1, 2018 issued in the principal amount of \$16,050,000.

The Certificates mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Certificates from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have also examined executed Certificate No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Certificates constitute valid and legally binding obligations of the Issuer; and
- (B) A continuing ad valorem tax upon all taxable property within the City of Mesquite, Texas, necessary to pay the principal of and interest on the Certificates, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Certificates is further secured by a pledge of the Surplus Revenues of the Issuer's Waterworks and Sewer System (as defined in the Ordinance), such pledge being limited to an amount not in excess of \$1,000; and the total indebtedness of the Issuer, including the Certificates, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Certificates are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IT IS OUR FURTHER OPINION THAT, under existing law:

- (1) Interest on the Certificates is excludable from gross income for federal income tax purposes under existing law; and
- (2) The Certificates are not "private activity bonds" within the meaning of the Code, and, as such, interest on the Certificates is not subject to the alternative minimum tax.

In providing such opinions, we have relied on representations of the Issuer, the Issuer's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the Underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Certificates from gross income for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing covenants of the Ordinance, interest on the Certificates could become includable in gross income from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Owners of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property

and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Certificates. 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 in the Ordinance 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 Certificates as includable in gross income for federal income tax purposes.

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