**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 Series 2018 Bonds is excludable from gross income for federal income tax purposes and the Series 2018 Bonds are not "private activity bonds." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

THE SERIES 2018 BONDS **HAVE NOT BEEN** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

MESQUITE TEXAS Real. Texas. Flavor.

**$8,920,000**
**CITY OF MESQUITE, TEXAS**
**(Dallas and Kaufman Counties)**
**WATERWORKS AND SEWER SYSTEM REVENUE**
**REFUNDING AND IMPROVEMENT BONDS, SERIES 2018**

**Dated Date: May 1, 2018**
**Interest to accrue from Date of Delivery**

**Due: March 1, as shown on page 2**

**PAYMENT TERMS** . . . Interest on the $8,920,000 City of Mesquite, Texas, Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2018 (the "Series 2018 Bonds") will accrue from the Date of Delivery, and will be payable March 1 and September 1 of each year commencing March 1, 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 Series 2018 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 Series 2018 Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. **No physical delivery of the Series 2018 Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Series 2018 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 Series 2018 Bonds. See "The Series 2018 Bonds - 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 Series 2018 Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Series 2018 Bonds are issued pursuant to the general laws of the State of Texas, particularly Chapters 1207 and 1502, Texas Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council of the City of Mesquite, Texas (the "City"), and are special obligations of the City and, together with the outstanding Bonds Similarly Secured (hereinafter defined) and any additional parity obligations issued in the future, are payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's combined waterworks and sewer system (the "System"). **The City has not covenanted nor obligated itself to pay the Series 2018 Bonds from monies raised or to be raised from taxation** (see "The Series 2018 Bonds – Security and Source of Payment").

**PURPOSE** . . . Proceeds from the sale of the Series 2018 Bonds will be used (i) to provide funds to refund a portion of the City's outstanding Waterworks and Sewer System debt (the "Refunded Bonds") in order to lower the overall debt service requirements of the City payable from the Net Revenues (see "Schedule I – Schedule of Refunded Bonds"), (ii) to provide funds for improvements, additions and extensions to the System, (iii) to fund the additional amount required to be accumulated in the Reserve Fund (as defined herein) as a result of the issuance of the Series 2018 Bonds, and (iv) to pay the costs of issuance of the Series 2018 Bonds.

**CUSIP PREFIX: 590774**

**MATURITY SCHEDULE & 9 DIGIT CUSIP**
**See Schedule on Page 2**

**LEGALITY** . . . The Series 2018 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 Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

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

**SAMCO CAPITAL MARKETS** **BOK FINANCIAL SECURITIES, INC.**

**CUSIP Prefix: 590774[1]**

**MATURITY SCHEDULE**

| Principal Amount | 1-Mar Maturity | Interest Rate | Initial Yield | CUSIP Suffix [1] |
|---|---|---|---|---|
| $ 275,000 | 2019 | 4.000% | 1.830% | 7Q2 |
| 385,000 | 2020 | 4.000% | 1.990% | 7R0 |
| 400,000 | 2021 | 4.000% | 2.120% | 7S8 |
| 415,000 | 2022 | 4.000% | 2.230% | 7T6 |
| 435,000 | 2023 | 4.000% | 2.340% | 7U3 |
| 445,000 | 2024 | 4.000% | 2.440% | 7V1 |
| 465,000 | 2025 | 4.000% | 2.530% | 7W9 |
| 485,000 | 2026 | 4.000% | 2.600% | 7X7 |
| 510,000 | 2027 | 4.000% | 2.670% | 7Y5 |
| 530,000 | 2028 | 4.000% | 2.770% | 7Z2 |
| 370,000 | 2029 | 4.000% | 2.870% [2] | 8A6 |
| 385,000 | 2030 | 4.000% | 2.990% [2] | 8B4 |
| 405,000 | 2031 | 4.000% | 3.090% [2] | 8C2 |
| 420,000 | 2032 | 4.000% | 3.200% [2] | 8D0 |
| 440,000 | 2033 | 5.000% | 3.000% [2] | 8E8 |
| 460,000 | 2034 | 5.000% | 3.070% [2] | 8F5 |
| 485,000 | 2035 | 5.000% | 3.110% [2] | 8G3 |
| 510,000 | 2036 | 5.000% | 3.150% [2] | 8H1 |
| 535,000 | 2037 | 5.000% | 3.180% [2] | 8J7 |
| 565,000 | 2038 | 5.000% | 3.200% [2] | 8K4 |

**(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 Global Market Intelligence 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, March 1, 2028.

**Optional Redemption** . . . The City reserves the right, at its option, to redeem Series 2018 Bonds having stated maturities on and after March 1, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Series 2018 Bonds - Optional Redemption").

*This Official Statement, which includes the cover pages and the 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 Series 2018 Bonds.*

*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.*

*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 pursuant to their responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.*

*The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on an ongoing basis.*

*THE SERIES 2018 BONDS ARE EXEMPT FROM REGISTRATION WITH THE SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE SERIES 2018 BONDS 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.*

**TABLE OF CONTENTS**



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 Series 2018 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

| | |
|---|---|
| **THE CITY** | The City of Mesquite is a home rule municipality located in Dallas County, Texas. For information regarding the City and its economy, see Appendices A and B. |
| **THE SERIES 2018 BONDS** | The Series 2018 Bonds are issued as $8,920,000 Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2018. The Series 2018 Bonds are issued as serial bonds maturing on March 1 of each year from March 1, 2019 through March 1, 2038 (see "The Series 2018 Bonds - Description of the Series 2018 Bonds"). |
| **PAYMENT OF INTEREST** | Interest on the Series 2018 Bonds accrues from the Date of Delivery, and is payable March 1, 2019 and each September 1 and March 1 thereafter until maturity or prior redemption (see "The Series 2018 Bonds - Description of the Series 2018 Bonds" and "The Series 2018 Bonds - Optional Redemption"). |
| **AUTHORITY FOR ISSUANCE** | The Series 2018 Bonds are issued pursuant to the general laws of the State, particularly, Texas Government Code, Chapters 1207 and 1502, and an ordinance passed on the date of sale by the City Council of the City (see "The Series 2018 Bonds - Authority for Issuance"). |
| **SECURITY FOR THE SERIES 2018 BONDS** | The Series 2018 Bonds constitute special obligations of the City and, together with the outstanding Bonds Similarly Secured (hereinafter defined) and any additional parity obligations issued in the future, are payable, both as to principal and interest, solely from and secured by a first lien on and pledge of the Net Revenues of the City's combined waterworks and sewer system (the "System"). **The City has not covenanted nor obligated itself to pay the Series 2018 Bonds from monies raised or to be raised from taxation** (see "The Series 2018 Bonds - Security and Source of Payment"). |
| **NOT QUALIFIED TAX-EXEMPT OBLIGATIONS** | The City **has not designated** the Series 2018 Bonds 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 Series 2018 Bonds having stated maturities on and after March 1, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Series 2018 Bonds - Optional Redemption"). |
| **TAX EXEMPTION** | In the opinion of Bond Counsel, under existing law, interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes and the Series 2018 Bonds 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 Series 2018 Bonds will be used (i) to provide funds to refund a portion of the City's outstanding System debt (the "Refunded Bonds") in order to lower the overall debt service requirements of the City payable from the Net Revenues of the System, (ii) to provide funds for improvements, additions and extension to the System, (iii) to fund the additional amount required to be accumulated in the Reserve Fund as a result of the issuance of the Series 2018 Bonds, and (iv) to pay the costs of issuance of the Series 2018 Bonds. |
| **RATINGS** | The Series 2018 Bonds and the presently outstanding System revenue 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 Series 2018 Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Series 2018 Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Series 2018 Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Series 2018 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 Series 2018 Bonds (see "The Series 2018 Bonds - Book-Entry-Only System") .

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

## 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 |

**CONSULTANTS AND ADVISORS**

Auditors .......................................................... BKD LLP, Dallas, Texas

Bond Counsel .......................................................... Bracewell LLP, Dallas, Texas

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

**OFFICIAL STATEMENT**

**RELATING TO**

**$8,920,000**
**CITY OF MESQUITE, TEXAS**
**WATERWORKS AND SEWER SYSTEM REVENUE**
**REFUNDING AND IMPROVEMENT BONDS, SERIES 2018**

## INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $8,920,000 City of Mesquite, Texas (the "City" or the "Issuer"), Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2018. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Series 2018 Bonds (the "Ordinance") which authorized the issuance of the Series 2018 Bonds, except as otherwise indicated herein (see "Selected Provisions of the Bond Ordinance").

There follows in this Official Statement descriptions of the Series 2018 Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as is shown by that financial and other information, will necessarily continue or be repeated in the future (see "Other Information - Forward Looking Statements Disclaimer").

**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 143,060. The City covers approximately 46.963 square miles.

## PLAN OF FINANCING

**PURPOSE . . .** Proceeds from the sale of the Series 2018 Bonds will be used (i) to provide funds to refund a portion of the City's outstanding Waterworks and Sewer System (the "System") debt (the "Refunded Bonds") in order to lower the overall debt service requirements of the City payable from the Net Revenues of the System, (ii) to provide funds for improvements, additions and extensions to the System, (iii) to fund the additional amount required to be accumulated in the Reserve Fund as a result of the issuance of the Series 2018 Bonds, and (iv) to pay the costs of issuance of the Series 2018 Bonds.

**REFUNDED BONDS . . .** The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds, from funds to be deposited pursuant to a certain Deposit Agreement (the "Deposit Agreement") between the City and the paying agent/registrar for the Refunded Bonds (the "Refunded Bond Paying Agent"). The Ordinance provides that from the proceeds of the sale of the Series 2018 Bonds received from the Underwriters and other funds of the City, if any, the City will deposit with the Refunded Bond Paying Agent an amount which will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on the redemption date. Such funds will be held by the Refunded Bond Paying Agent in a special account (the "Account") and used to pay principal and accrued interest on the Refunded Bonds on the redemption date. Under the Deposit Agreement, the Account is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. The funds on deposit in the Account will not be available to pay debt service on the Series 2018 Bonds. Such funds in the Account may be invested by the Refunded Bond Paying Agent at the direction of the City pending their disbursement to redeem the Refunded Bonds in accordance with the ordinance authorizing the Refunded Bonds.

The Refunded Bond Paying Agent, in its capacity as Paying Agent for the Refunded Bonds, or alternately, 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 Bonds when due on the redemption date. By the deposit of the proceeds of the Series 2018 Bonds and other funds of the City, if any are required, with the Refunded Bond Paying Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of the Refunded Bonds in accordance with applicable State law and the ordinance authorizing the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Account held for such purpose by the Refunded Bond Paying Agent, and the Refunded Bonds 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 Account for the payment of the Refunded Bonds.

**SOURCES AND USES OF BOND PROCEEDS** . . . Proceeds from the sale of the Series 2018 Bonds are expected to be expended as follows:

| | | |
|---|---|---|
| Sources of Funds | | |
| Par Amount of Bonds | $ | 8,920,000.00 |
| Net Reoffering Premium | | 925,128.80 |
| Transfers from Prior Issue Debt Service Funds | | 32,493.75 |
| Total Sources of Funds | $ | 9,877,622.55 |
| | | |
| Uses of Funds | | |
| Deposit to Project Construction Fund | $ | 8,175,000.00 |
| Deposit to Current Refunding Account | | 1,523,232.60 |
| Costs of Issuance | | 123,493.40 |
| Underwriters' Discount | | 55,896.55 |
| Total Uses of Funds | $ | 9,877,622.55 |

## THE SERIES 2018 BONDS

**DESCRIPTION OF THE SERIES 2018 BONDS . . .** The Series 2018 Bonds are dated May 1, 2018, and mature on March 1 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Date of Delivery of the Series 2018 Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing March 1, 2019 until maturity or prior redemption. The definitive Series 2018 Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Series 2018 Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Series 2018 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 Series 2018 Bonds. See "Book-Entry-Only System" herein.

**AUTHORITY FOR ISSUANCE . . .** The Series 2018 Bonds are issued pursuant to the general laws of the State of Texas, particularly Texas Government Code, Chapters 1207 and 1502, and the Ordinance.

**SECURITY AND SOURCE OF PAYMENT . . .** The Series 2018 Bonds are special obligations of the City, and together with the outstanding and unpaid Bonds Similarly Secured (hereinafter defined), are payable, both as to principal and interest, solely from and equally secured by a first lien on and pledge of the Net Revenues of the System. "Net Revenues" are defined to mean "all income, revenues and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of moneys in the special funds created by the Ordinance) after deducting and paying, and making provisions for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided however, that only such expenses for repairs and extensions as in the judgment of the City's governing body, reasonably and fairly exercised, are necessary to keep the system in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining the Net Revenues" payments made by the City for water supply or treatment of sewage which (i) under the law and (ii) pursuant to the terms of the contract therefor, are to be, operation and maintenance expenses are considered as expenses incurred in the operation and maintenance of the System. Depreciation is not considered as an expense of operation and maintenance for the purpose of determining Net Revenues.

The City has outstanding bonds (the "Bonds Similarly Secured") secured by and payable from Net Revenues on parity with the Series 2018 Bonds, as follows:

| Dated Date | Outstanding Debt(1) | Issue Description |
|---|---|---|
| 05/01/08 | $ - | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2008 |
| 06/15/09 | 395,000 | Waterworks and Sewer System Revenue Bonds, Series 2009 |
| 05/15/10 | 5,675,000 | Waterworks and Sewer System Revenue Bonds, Series 2010 |
| 05/01/11 | 7,565,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2011 |
| 07/15/12 | 5,230,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2012 |
| 05/15/13 | 5,035,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2013 |
| 05/15/14 | 9,940,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2014 |
| 05/15/15 | 7,440,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2015 |
| 03/15/16 | 13,965,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2016 |
| 05/01/17 | 12,360,000 | Waterworks and Sewer System Revenue Refunding & Improvement Bonds, Series 2017 |
| | $ 67,605,000 | |

(1) As of February 15, 2018. Excludes the Refunded Bonds.

The Series 2018 Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the System, except with respect to the Net Revenues. The Ordinance does not create a lien or mortgage on any property or assets of the System other than the Net Revenues and any judgment against the City with respect to the Series 2018 Bonds may not be enforced by levy and execution against any property owned by the City. **The Owners of the Series 2018 Bonds shall never have the right to demand payment of the Series 2018 Bonds out of any funds raised or to be raised by taxation.**

**RESERVE FUND . . .** As additional security for the payment of the Series 2018 Bonds and the Bonds Similarly Secured, there has been established a Reserve Fund which is required to be funded from Net Revenues over a sixty month period or from other sources in an amount at least equal to the average annual debt service requirements of the Series 2018 Bonds and Outstanding Bonds Similarly Secured in accordance with the provisions of the Ordinance. Additionally, the Ordinance provides that, subject to certain conditions set forth in the Ordinance, the City may from time to time replace or substitute all or a portion of the cash and investments in the Reserve Fund with a surety bond, a policy of municipal bond insurance or a letter or line of credit whereby the issuer thereof is obligated to provide funds up to a maximum amount under the conditions specified therein (the "Credit Facility"). If the City is required to make a withdrawal from the Reserve Fund to pay principal and/or interest on the Series 2018 Bonds or Bonds Similarly Secured, such withdrawal will be made first from cash and investments in the Reserve Fund and next from a drawing under the Credit Facility. In the event there is a draw upon the Credit Facility, the City shall reimburse the Credit Facility provider for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Series 2018 Bonds or Bonds Similarly Secured. See "Selected Provisions of The Ordinance" herein.

In connection with the issuance of the City's Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2008 (the "Series 2008 Bonds"), the City replaced the cash and investments in the Reserve Fund with a surety bond (the "2008 Reserve Policy") originally issued by Financial Security Assurance Inc. (now Assured Guaranty Municipal Corp., ("AGM")) to satisfy the Reserve Fund requirement for the Series 2008 Bonds and the then outstanding Bonds Similarly Secured. In connection with the issuance of the City's Waterworks and Sewer System Revenue Bonds, Series 2009, and Waterworks and Sewer System Revenue Bonds, Series 2010, the City funded the additional amount required for the Reserve Fund as a result of the issuance of each such series of bonds with separate surety bonds issued by AGM (respectively, the "2009 Reserve Policy" and the "2010 Reserve Policy" and, together with the 2008 Reserve Policy, the "Reserve Policies").

Draws under each of the Reserve Policies will be made on a pro-rata basis and will reduce coverage by a like amount under each respective Reserve Policy. The City is required to repay on a pro-rata basis any draws under the Reserve Policies and make payment of expenses and accrued interest thereon commencing in the first month following each draw, and each such monthly payment shall be in an amount at least equal to 1/12 of the aggregate of costs related to such draw. As and to the extent that payments are made on account of principal due under the Reserve Policies, the coverage under the Reserve Policies will be increased by a like amount, subject to the terms of the Reserve Policies. The Reserve Policies require that the rates and charges established by the City for service of the System include amounts due under the Reserve Policies. See "Selected Provisions Of The Ordinance."

The Reserve Fund requirement is currently fully funded by the Reserve Policies issued by AGM and $290,331 cash from proceeds of previously issued Bonds Similarly Secured. The City expects to fund the additional amount required in the Reserve Fund as a result of the issuance of the Series 2018 Bonds with proceeds of the Series 2018 Bonds.

**RATES AND CHARGES . . .** For the benefit of the owners of the Series 2018 Bonds and Bonds Similarly Secured and any Additional Bonds (as defined below), and in addition to all provisions of the laws of the State and covenants and provisions in the Ordinance, the City has covenanted in the Ordinance, at all times, while any of the Series 2018 Bonds or Bonds Similarly Secured or any Additional Bonds are outstanding and unpaid to maintain rates and collect charges for the facilities and services afforded by the System, as required by Section 1502.057, Texas Government Code, which will provide revenues sufficient at all times to:

(a) Pay for all maintenance, operation, debt service, depreciation, replacement and betterment charges of the System;

(b) Establish and maintain the Interest Sinking Fund and the Reserve Fund as provided for in the Ordinance;

(c) Produce Net Revenues each year in an amount reasonably anticipated to be not less than 1.50 times the average annual principal and interest requirements of the Series 2018 Bonds and Bonds Similarly Secured and any Additional Bonds (as defined below) from time to time outstanding; and

(d) Pay all outstanding indebtedness against the System, other than the Series 2018 Bonds and Bonds Similarly Secured and any Additional Bonds (as defined below) as and when the same become due.

**ADDITIONAL BONDS . . .** Under the Ordinance, the City may issue additional revenue bonds ("Additional Bonds") which are on a parity with the Series 2018 Bonds and Bonds Similarly Secured and equally secured by a first lien on and pledge of the Net Revenues of the System. No Additional Bonds may be issued unless the City has met certain conditions concerning the debt service coverage for the proposed Additional Bonds and all outstanding Series 2018 Bonds and Bonds Similarly Secured. See "Selected Provisions of The Ordinance - Issuance of Additional Bonds" herein.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Series 2018 Bonds having stated maturities on and after March 1, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Series 2018 Bonds are to be redeemed, the City may select the maturities of Series 2018 Bonds to be redeemed. If less than all the Series 2018 Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Series 2018 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2018 Bonds, or portions thereof, within such maturity to be redeemed. If a Series 2018 Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2018 Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Series 2018 Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Series 2018 Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Series 2018 Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Series 2018 Bonds have not been redeemed.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Series 2018 Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Series 2018 Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE SERIES 2018 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

**AMENDMENTS . . .** In the Ordinance, the City has reserved the right to amend the Ordinance in any manner not detrimental to the interests of the registered owner or owners of the Series 2018 Bonds, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, with the written consent of the registered owner or owners holding a majority in aggregate principal amount of the Series 2018 Bonds then outstanding affected thereby, the City may amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all registered owners of outstanding Series 2018 Bonds, no such amendment, addition or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Series 2018 Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Series 2018 Bonds, (ii) given any preference to any Series 2018 Bond over any other Series 2018 Bond, or (iii) reduce the aggregate principal amount of Series 2018 Bonds required for consent to any such amendment, addition or rescission.

**DEFEASANCE . . .** The Ordinance provides for the defeasance of the Series 2018 Bonds when payment of the principal of and premium, if any, on Series 2018 Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Series 2018 Bonds have been provided for, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharges obligations such as the Series 2018 Bonds. Current State law permits defeasance with the following types of securities: (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. 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 Series 2018 Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Series 2018 Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Series 2018 Bonds have been made as described above, all rights of the City to initiate proceedings to call the Series 2018 Bonds for redemption or take any other action amending the terms of the Series 2018 Bonds are extinguished; provided, however, that the right to call the Series 2018 Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Series 2018 Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Series 2018 Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorize.

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 Series 2018 Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Series 2018 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2018 Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Series 2018 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City 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 Series 2018 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2018 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

DTC will act as securities depository for the Series 2018 Bonds. The Series 2018 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2018 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). 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 Series 2018 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2018 Bonds 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 Series 2018 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2018 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2018 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2018 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Series 2018 Bonds may wish to ascertain that the nominee holding the Series 2018 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

Redemption notices for the Series 2018 Bonds shall be sent to DTC. If less than all of the Series 2018 Bonds of a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2018 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2018 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2018 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar 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 of each series, 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 of each series, 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.

**Use of Certain Terms in Other Sections of this Official Statement . . .** In reading this Official Statement it should be understood that while the Series 2018 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2018 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**Effect of Termination of Book-Entry-Only System** . . . In the event that the Book-Entry-Only System of the Series 2018 Bonds is discontinued, printed Series 2018 Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Series 2018 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Series 2018 Bonds - 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 Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants in the Ordinance to maintain and provide a Paying Agent/Registrar at all times until the Series 2018 Bonds 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 Series 2018 Bonds. Upon any change in the Paying Agent/Registrar for the Series 2018 Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Series 2018 Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Series 2018 Bonds will be delivered to the registered owners and thereafter the Series 2018 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Series 2018 Bonds may be assigned by the execution of an assignment form on the Series 2018 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2018 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2018 Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series 2018 Bonds issued in an exchange or transfer of Series 2018 Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series 2018 Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Series 2018 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate designated amount as the Series 2018 Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2018 Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Series 2018 Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Series 2018 Bond 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 a Series 2018 Bond.

**Record Date for Interest Payment . . .** The record date ("Record Date") for the interest payable on the Series 2018 Bonds on any interest payment date means the close of business on the fifteenth 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 (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each holder of a Series 2018 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**Bondholders' Remedies . . .** The Ordinance establishes specific events of default with respect to the Series 2018 Bonds. If the City defaults in payments to be made to the Interest and Sinking Fund or Reserve Fund as required by the Ordinance or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, set forth in the Ordinance, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Series 2018 Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Series 2018 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Series 2018 Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous language." Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Series 2018 Bonds may not be able to bring such a suit against the City for breach of the covenants in the Series 2018 Bonds or in the Ordinance. Chapter 1371, Texas Government Code, 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 debt, but in connection with the issuance of the Obligations, the City has not waived sovereign immunity. 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 Series 2018 Bonds.

On April l**,** 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, 5~ 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 Bonds, the City is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing the Bonds.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors, holders of the Series 2018 Bonds 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 all opinions relative to the enforceability of the Series 2018 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See “Book-Entry-Only System” herein for a description of the duties of DTC with regard to ownership of the Series 2018 Bonds. Initially, the only registered owner of the Series 2018 Bonds will be DTC.

## 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.tmrs.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 2017and 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 |
| Investemtn 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) | - |
| Administrtive 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.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.

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 | - |
| | $ 27,601,217 | $ 3,725,934 |

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 | $ 17,470,869 |

*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) | $ 2,749,383 |
| Contributions made | (2,377,592) |
| Increase in net OPEB asset | 371,791 |
| Net OPEB liability - beginning of year | 4,819,348 |
| Net OPEB liability - end of year | $ 5,191,139 |

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 Cost Contributed | % of Cost Contributed | Net OPEB Liability (Asset) |
|---|---|---|---|---|---|
| 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.

## THE SYSTEM

**WATER SUPPLY AND WASTEWATER TREATMENT CONTRACTS** . . . Under State law the City is authorized to enter into water supply and wastewater treatment contracts with other public entities, and may provide in such agreements that the payments thereunder constitute the operation and maintenance expenses of the System.

**WATER SUPPLY** . . . The City, together with 12 other "member cities", is party to a contract with the North Texas Municipal Water District (the "District") a conservation and reclamation district and a political subdivision of the State, which calls for the District to deliver to the member cities treated water in the volume contracted for, to the extent water is available in the Lavon Dam and Reservoir ("Lavon").

The District's water supply is currently obtained from Lavon located on the East Fork of the Trinity River approximately 60 miles north of its confluence with the main stream and about 25 miles northeast of the City of Dallas. Lavon was constructed and is owned by the United States Army Corps of Engineers (the "Corps") and the District's access to the water storage capacity of Lavon exists pursuant to a contract with the Corps executed in 1954 and amended in 1967. The District owns storage rights to the entire water conservation pool in Lavon, approximately 380,000 acre feet. The District also owns rights to portions of Lake Cooper and Lake Texoma.

All payments by each member city under the contracts are to be made solely from its water revenues, and such payments constitute operating expenses of its waterworks system. Each member city agrees in its contract to fix and collect such rates and charges for water service to be supplied by its waterworks system, including all payments required under its contract with the District, and the prompt payment of the principal of and interest on its obligations payable from the revenues of its waterworks system. The City's annual payment to the District for treated water for the year ended September 30, 2017 was approximately $19.897 million.

The City of Dallas ("Dallas") has a 90-inch water main through the City to transport treated water from its East Side Treatment Plant. In consideration of the City's granting permission for this installation inside its City limits, Dallas provided one delivery point along the 90-inch line from which the City may obtain treated water. The combination of District and Dallas water delivery points provides the City with two independent sources of water supply. The Dallas connection is to be used only in emergency situations and has never been used.

**WASTEWATER TREATMENT** . . . In 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 any "additional member city" as defined in said contract. Each member city pays an "annual payment" for its share of operating expenses and debt service of the District. The City's annual payment to the District was approximately $8.543 million for the year ended September 30, 2017. As of September 30, 2017, the District had six issues of Regional Wastewater System Revenue Bonds outstanding: Regional Wastewater System Revenue Bonds, Series 2008, outstanding in the amount of $2,340,000; Regional Wastewater System Revenue Bonds, Series 2009, outstanding in the amount of $3,225,000; Regional Wastewater System Revenue Bonds, Series 2012, outstanding in the amount of $10,630,000; Regional Wastewater System Revenue Bonds, Series 2013, outstanding in the amount of $20,860,000; Region Wastewater System Revenue Refunding and Improvement Bonds, Series 2015, outstanding in the amount of $62,455,000 and Region Wastewater System Revenue Refunding and Improvement Bonds, Series 2016, outstanding in the amount of $88,865,000; Regional Wastewater System Revenue Bonds, Series 2017, outstanding in the amount of $73,145,000; Regional Wastewater System Revenue Refunding Bonds, Series 2017, outstanding in the amount of $19,515,000. Expansion of the plant was completed in December 1992 and increased daily treatment capacity from 12.6 million gallons per day to 25 million gallons per day. The City began reimbursing the District for debt service on the construction during the fiscal year ended September 30, 1992. No major increase in operating cost is anticipated. The contract will have been paid in full and will remain in force thereafter throughout the useful life of the system.

**THE WATER SYSTEM** . . . The District delivers water to the City at three locations which have ground storage capacities totaling 24.5 million gallons. In addition, the City has a total of four overhead storage sites with a total storage capacity of 9.5 million gallons. With this storage capacity, the City is able to deliver up to 81.5 million gallons of water per day through its distribution system.

In accordance with its master plan, the City has constructed a system of 30 inch, 24 inch, and 18 inch trunk mains to provide the major transmission components of the water system. As development takes place, the City requires developers to provide water mains up to and including 12 inch in size, and if a line size larger than 12 inch is required according to the over-all master plan, the developer pays the cost of the 12 inch line and the City pays the remaining cost of the line and the size main for ultimate development is installed. This planning and administration has developed a basic water system of water mains 12 inches in size and larger which provides sufficient water supply and pressures for future residential and industrial development. In addition, the City has completed an updated total water system overview, including future facilities and pump station upgrades. These upgrades will add large trunk mains up to 42 inches in diameter to meet total build out needs of the City.

**BILLINGS** . . . Charges for all utility services are billed monthly on one statement. Customers cannot pay for one utility service only; they must pay for all services billed. Bills computed at the net monthly rate are due when rendered and are payable within 19 days from date of bill. A bill not paid by the due date incurs a penalty of 10% of the water charge. A customer whose bill is not paid by the following billing date is notified that service will be disconnected within two months of the due date. The reconnection charges are $27.50 during regular hours (8:00 AM - 5:00 PM) and $32.50 after regular hours and on holidays. An additional deposit is required for each reconnection: Residential ~ $7.50 each up to an average three months bill; Commercial - $10.00 each with no maximum.

For information regarding usage, billing rates and customers, see the tables in Appendix A to this Official Statement.

## 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, including letters of credit, of the United States or its agencies and instrumentalities, (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 are unconditionally 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) interest-bearing banking deposits that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National credit Union Share Insurance Fund or its successor or (B) are invested through (i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the City adopts or (ii) a depository institution with a main office or branch office in this state that the City selects; and (a) the broker or depository institution selected arranges for the deposit of the funds in the banking deposits in one or more federal insured depository institutions, regardless of where located, for the City' s account; and (b) the full amount of the principal and accrued interest of the banking deposits is insurance by the United States or an instrumentality of the United States; and (c) the City appoints as the City' s custodian of the banking deposits issued for the City' s account:(1) the depository institution selected pursuant to (ii) above or (2) an entity described by Section 2256.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3., (8) certificates of deposit (iv) 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 City or the National Credit Union Share Insurance Fund, or are secured as to principal by Certificates described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits, or (v) where; (a) the funds are invested by the City through a depository institution that has a main office or branch office in this state and that is selected by the City; (b) the depository institution selected by the City arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the City with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the City receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the City through the depository institution selected under clause (ii)(a) above, (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (10) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, 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 that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the 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, (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 the preceding clauses, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (14) public funds investment pools that have an advisory board which includes participants in the pool 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 or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256 (the "PFIA").

A political subdivision such as the City may enter into 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 (10) through (12) above, 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 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.

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

**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) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City ; (3) 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; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer, and investment officers; (6) 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; (7) restrict its investment in non-money market mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements (9) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution 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 |

## SELECTED PROVISIONS OF THE BOND ORDINANCE

The following sets forth certain selected provisions of the Ordinance. This summary is qualified by reference to other provisions of the Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the Ordinance, a copy of which may be obtained from the City.

Section 5. DEFINITIONS. For all purposes of this Ordinance and in particular for clarity with respect to the issuance of the Series 2018 Bonds herein authorized and the pledge and appropriation of revenues therefor, the following definitions are provided:

(a) The term "System" shall mean the Issuer's existing combined waterworks and sanitary sewer systems, including all properties (real, personal or mixed, tangible or intangible), owned, operated, maintained, and vested in, the Issuer for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacement and improvements thereto.

(b) The term "Bonds" shall mean the City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2008, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2009, City of Mesquite, Texas Waterworks and Sewer System Revenue Bonds, Series 2010, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2011, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2012, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2013, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2014, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2015, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2016, City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2017 and City of Mesquite, Texas Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2018 authorized by the Ordinance.

(c) The term "Ordinance" shall mean the Ordinance under which the Bonds are authorized.

(d) The term "Outstanding", when used in this Ordinance with respect to Series 2018 Bonds, shall mean, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except (i) those Series 2018 Bonds theretofore canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation; (ii) those Series 2018 Bonds for which payment has been duly provided by the Issuer of the irrevocable deposit with the Paying Agent/Registrar of money in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Series 2018 Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Ordinance or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; (iii) those Series 2018 Bonds that have been mutilated, destroyed, lost or stolen and replacement bonds have been registered and delivered in lieu thereof as; provided in Section 24 hereof; and (iv) those Series 2018 Bonds for which the payment of the principal of, premium, if any, and interest on has been fully provided for by the Issuer in accordance with law.

(e) The term "Additional Bonds" shall mean the additional parity revenue bonds which the Issuer reserves the right to issue and deliver in the future, as provided by this Ordinance.

(f) The term "Net Revenues" shall mean all income, revenues and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of moneys in the special funds created by this Ordinance) after deducting and paying, and making provisions for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the Issuer and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues". Payments made by the Issuer for water supply or treatment of sewage which (i) under the law and (ii) pursuant to the terms of the contract therefor, are to be, operation and maintenance expenses shall be considered herein as expenses incurred in the operation and maintenance of the System. Depreciation shall never be considered as an expense of operation and maintenance.

(g) The term "Subordinate Debt" shall mean any obligation of the Issuer heretofore or hereafter issued which is payable (i) in whole or in part from the Net Revenues and (ii) secured by a lien on and pledge of Net Revenues which is not, by its terms, a first lien on and pledge of such Net Revenues.

(h) The term "Fiscal Year" shall mean the twelve month period ending September 30 of each year, unless otherwise designated by the Issuer.

(i) The term "Credit Facility" shall mean a policy of municipal bond insurance, a surety bond or a letter or line of credit issued by a Credit Facility Provider in support of any Bonds or Additional Bonds.

(j) The term "Investment" shall mean cash, investments, any Credit Facility, or any combination of the foregoing.

(k) The term "Credit Facility Provider" shall mean (i) with respect to any Credit Facility consisting of a policy of municipal bond insurance or a surety bond, an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations such as the Bonds or Additional Bonds, provided that a Rating Agency having an outstanding rating on the Bonds or Additional Bonds would rate the Bonds or Additional Bonds fully insured by a standard policy issued by the issuer in its highest generic rating category for such obligations; and (ii) with respect to any Credit Facility consisting of a letter or line of credit, any financial institution, provided that a Rating Agency having an outstanding rating on the Bonds or Additional Bonds would rate the Bonds or Additional Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the series of Bonds or Additional Bonds and the interest thereon.

(l) The term "Rating Agency" shall mean any nationally recognized municipal securities rating service.

Section 6. PLEDGE OF REVENUES. The Issuer covenants and agrees that the Net Revenues of the System, to the extent required, are irrevocably pledged for the payment and security of the principal of and interest on the Bonds and Additional Bonds.

Section 7. RATES AND CHARGES. For the benefit of the original purchasers as well as the ultimate owners of the Bonds and Additional Bonds, and in addition to all provisions and covenants in the laws of the State of Texas and in the Ordinance, it is expressly stipulated that the Issuer shall, at all times, while any of the Bonds or Additional Bonds are outstanding and unpaid, maintain rates and collect charges for the facilities and services afforded by the System, as required by Section 1502.057 and Chapter 1502, Texas Government Code, which will provide revenues sufficient at all times to:

(a) Pay for all maintenance, operation, debt service, depreciation, replacement and betterment charges of the System;

(b) Establish and maintain the Interest and Sinking Fund and the Reserve Fund as provided for in the Ordinance;

(c) Produce Net Revenues each year in an amount reasonably anticipated to be not less than 1.50 times the average annual principal and interest requirements of the Bonds and Additional Bonds from time to time outstanding; and

(d) Pay all outstanding indebtedness against the System, other than the Bonds and Additional Bonds as and when the same become due.

Section 8. REVENUE FUND. The Issuer covenants that it will deposit, as collected, all revenues of every nature derived from the operation of the System, into a separate account known as the City of Mesquite, Texas Waterworks and Sewer System Revenue Fund (herein called the "Revenue Fund") established in the Ordinance, which shall be kept separate and apart from all other funds of the Issuer, and, further, that said Revenue Fund shall be pledged and appropriated to the following uses and in order of precedence shown:

First: To the payment of all necessary and reasonable maintenance and operation expenses of the System as said expenses are defined by law.

Second: To the "Interest and Sinking Fund" and the "Reserve Fund" for the payment of principal of and interest on the Bonds and Additional Bonds, when and as the same fall due and mature.

Third: To any other purpose of the Issuer now or hereafter permitted by law, including the payment of Subordinate Debt, to the extent provided in the ordinance authorizing the issuance of such Subordinate Debt.

Section 9. INTEREST AND SINKING FUND. The following provisions shall govern the establishment, maintenance and use of the City of Mesquite, Texas Waterworks and Sewer System Interest and Sinking Fund (the "Interest and Sinking Fund"):

(a) The Issuer covenants that from the funds in the Revenue Fund, the Issuer shall pay into the Interest and Sinking Fund during each year in which any of the Bonds are outstanding, an amount equal to 100% of the amount required to meet the principal and interest payments falling due on or before the next maturity or redemption date of the Bonds, such payment to be made in equal monthly installments. If the revenues of the System in any month, after deductions for maintenance and operation expenses, are then insufficient to make the required payments into the Interest and Sinking Fund, then the amount of any deficiency in the payment shall be added to the amount otherwise required to be paid into the Interest and Sinking Fund in the next month. All moneys paid into the Interest and Sinking Fund shall be deposited in the Issuer's depository bank, and said depository bank shall, not later than any principal or interest payment date, transfer the amount then to become due to the Paying

Agent/Registrar. Said moneys not invested shall be continuously secured by a valid pledge to the Issuer of direct obligations of the United States of America, having an aggregate market value, exclusive of accrued interest, at all times at least equal to such uninvested moneys in the Interest and Sinking Fund.

(b) Chapter 1208, Government Code, applies to the issuance of the Series 2018 Bonds and the pledge of the revenues granted by the Issuer under this Section, and is therefore valid, effective, and perfected. Should Texas law be amended at any time while the Series 2018 Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the revenues granted by the Issuer under this Section is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, in order to preserve to the Registered Owners of the Series 2018 Bonds a security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business & Commerce Code and enable a filing of a security interest in said pledge to occur.

Section 10. RESERVE FUND. The following provisions shall govern the establishment, maintenance and use of the City of Mesquite, Texas Waterworks and Sewer System Reserve Fund (the "Reserve Fund"):

(a) There shall be established and maintained a Reserve Fund for the purposes of (i) finally retiring the last of the Bonds or Additional Bonds and (ii) paying principal of and interest on the Bonds or Additional Bonds in the event moneys on hand in the Interest and Sinking Fund are insufficient for such purpose.

(b) The amount to be accumulated and maintained in the Reserve Fund shall be equal to the average annual debt service requirements on all outstanding Bonds and Additional Bonds (the "Required Reserve Fund"), which amount after the issuance of the Series 2018 Bonds and the refunding of the Refunded Bonds is hereby determined to be $5,174,425. The Required Reserve Fund shall be calculated as of the last day of each fiscal year and upon the issuance of any Additional Bonds. In connection with the issuance of the Bonds, the City Council has determined to fund the additional amount required in the Reserve Fund as a result of the issuance of the Series 2018 Bonds by the deposit of proceeds of the Bonds.

(c) In the event money in said Reserve Fund is used for the purpose for which the same is established, the amount required to make up the deficiency so that the Required Reserve Fund is on deposit in such Fund shall be paid into such Fund in not more than 60 months, in equal consecutive monthly installments.

(d) The depository bank of the Issuer is designated as the custodian of the Reserve Fund and the deposits above prescribed shall be transmitted to said Fund in said depository bank.

(e) The Issuer may replace or substitute a Credit Facility for cash or investments in the Reserve Fund.

(f) Upon such replacement or substitution, cash or investments on deposit in the Reserve Fund which, taken together with the face amount of any existing Credit Facilities, are in excess of the Required Reserve Fund may be withdrawn by the Issuer, at its option, and transferred to the Revenue Fund; provided that the face amount of any Credit Facility may be reduced at the option of the Issuer in lieu of such transfer; and further provided that any such surplus funds that are withdrawn from the Reserve Fund and that consist of proceeds of Bonds or interest thereon shall only be used for purposes for which such Bonds were issued or deposited to the Interest and Sinking Fund.

(g) If the Issuer is required to make a withdrawal from the Reserve Fund for any of the purposes described in this Section, the Issuer shall promptly notify any applicable Credit Facility Provider of the necessity for a withdrawal from the Reserve Fund for any such purposes, and shall make such withdrawal FIRST from available moneys or investments then on deposit in the Reserve Fund, and NEXT from a drawing under any Credit Facility to the extent of such deficiency.

(h) In the event of a deficiency in the Reserve Fund, or in the event that on the date of termination or expiration of any Credit Facility there is not on deposit in the Reserve Fund sufficient amounts, all in an aggregate amount at least equal to the Required Reserve Fund, then the Issuer shall satisfy the Required Reserve Fund by depositing into the Reserve Fund in monthly installments of not less than 1/60 of the Required Reserve Fund made on or before the 10th day of each month following such termination or expiration.

(i) In the event of the redemption or defeasance of any Bonds, any amounts on deposit in the Reserve Fund in excess of the Required Reserve Fund may be withdrawn and transferred, at the option of the Issuer, to the Revenue Fund, as a result of (i) the redemption of any Bonds, or (ii) funds for the payment of any Bonds having been deposited irrevocably with the paying agent or place of payment therefor in the manner described in any ordinance authorizing the issuance of Bonds, the result of such deposit being that such Bonds no longer are deemed to be outstanding under the terms of any such ordinance; provided that any such surplus funds that are withdrawn from the Reserve Fund and that consist of proceeds of Bonds or interest thereon shall only be used for purposes for which such Bonds were issued or deposited to the Interest and Sinking Fund.

(j) In the event there is a draw upon the Credit Facility, the Issuer shall reimburse the Credit Facility Provider for such draw, in accordance with the terms of any agreement pursuant to which the Credit Facility is issued, from Net Revenues, however, such reimbursement from Net Revenues shall be subordinate and junior in right of payment to the payment of principal of and premium, if any, and interest on the Bonds or Additional Bonds.

Section 11. INVESTMENT OF CERTAIN FUNDS.

(a) The Interest and Sinking Fund may be invested in such securities or in such manner as may be lawful investments for an Interest and Sinking Fund. All moneys resulting from the investment of said Fund shall be transferred to the Revenue Fund as received.

(b) The Reserve Fund may be invested or reinvested from time to time in direct obligations of, or obligations, the principal and interest of which are guaranteed by the United States of America or invested in direct obligations of, or participation certificates guaranteed by, the Federal Intermediate Credit Banks, Federal Land Banks, Federal National Mortgage Association, Federal Home Loan Banks, Banks for Cooperatives, and in certificates of deposit of any bank or trust company, the deposits of which are fully secured by a pledge of securities of any of the kinds hereinabove specified, such obligations or securities to mature in not more than ten years from the date of such investment or not later than the final maturity of the Bonds outstanding for which the Reserve Fund is established, whichever is shorter. Any obligations in which money is so invested shall be kept in escrow with the custodian of the Reserve Fund, and shall be promptly sold and the proceeds of sale applied in the making of payments required to be made from the Reserve Fund, whenever such payments are necessary to be made under the provisions of the Ordinance. All moneys resulting from the investment of the Reserve Fund shall be transferred to the Revenue Fund as the same are received.

(c) The Issuer's depository bank shall invest the Interest and Sinking Fund and Reserve Fund as directed by the Issuer's Director of Finance or such other appropriate representative of the Issuer. If it becomes necessary to sell or dispose of investments in order to utilize the funds for such purposes for which such funds were created, the depository bank shall sell or dispose of such investment and give the Director of Finance notice thereof.

Section 12. FURTHER COVENANTS. The Issuer further covenants and agrees by and through the Ordinance as follows:

(a) The Bonds shall be special obligations of the Issuer, and the Registered Owners thereof shall never have the right to demand payment out of any funds raised or to be raised by taxation.

(b) It has the lawful power to pledge the revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued under the ordinance shall be ratably secured in such manner that no one Bond shall have preference over any other Bond or Bonds.

(c) Other than for the payment of the Bonds and Additional Bonds, the Net Revenues have not been in any manner pledged to the payment of any debt or obligation of the Issuer or the System, other than heretofore made for the payment of Subordinate Debt.

Section 13. ISSUANCE OF ADDITIONAL BONDS.

(a) In addition to the right to issue bonds of inferior lien as authorized by law, the Issuer reserves the right to issue Additional Bonds, under and in accordance with this Ordinance, for the purpose of improving, extending, equipping and repairing the System, and for the purpose of refunding in any lawful manner, any part or all of the Bonds, any Additional Bonds or Subordinate Debt then outstanding. The Additional Bonds shall be secured by and payable from a first lien on and pledge of the Net Revenues in the same manner and to the same extent as any then outstanding Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met, to-wit:

(i) The Issuer is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the outstanding Bonds or Additional Bonds;

(ii) Each of the special Funds created for the payment and security of the Bonds and Additional Bonds contain the amount of money then required to be on deposit therein;

(iii) The Issuer has secured from a certified public accountant a certificate showing that the Net Earnings for either the completed Fiscal Year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.50 times the average annual principal and interest requirements (calculated on a Fiscal Year basis at the time of issuance of Additional

Bonds) of all Bonds and Additional Bonds which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for services afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.50 times the average annual principal and interest requirements (calculated on a fiscal year basis at the time of issuance of Additional Bonds) of the outstanding Bonds and Additional Bonds after giving effect to the issuance of the proposed Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph (iii) shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;

(iv) The ordinance authorizing the Additional Bonds requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be an amount equal to the Required Reserve Fund for all outstanding Bonds and the amount equal to the amount required by any ordinance authorizing the issuance of any Additional Bonds theretofore issued and to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months in equal monthly installments from the date of the Additional Bonds; and

(v) The Additional Bonds are scheduled to mature only on March 1 or September 1 or both.

(b) The term "Net Earnings", as used in the Ordinance, shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested moneys in the special Funds created therein for the payment and security of the Bonds and Additional Bonds, after deduction of maintenance and operating expenses but not deducting depreciation, and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting from the ownership of the System (grants, meter deposits and gifts) shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings".

(c) Wherever, in the Ordinance, the Issuer reserves the right to issue Additional Bonds, such term shall also include, mean and refer to any other form; or types of obligations which may be made lawfully payable from and secured by the Net Revenues.

Section 14. MAINTENANCE AND OPERATION; INSURANCE. The Issuer shall maintain the System in good condition and operate the same in an efficient manner and at reasonable cost. So long as any Bonds or Additional Bonds are outstanding, the Issuer agrees to maintain insurance for the benefit of the Registered Owners thereof on the System of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business. Nothing in the Ordinance shall be construed as requiring the Issuer to expend any funds derived from sources other than the operation of the System, but nothing therein shall be construed as preventing the Issuer from doing so. No free service of the System shall be allowed, and should the Issuer or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the Issuer out of funds from sources other than the revenues and income of the System.

Section 15. RECORDS, ACCOUNTS; ACCOUNTING REPORTS.

(a) The Issuer covenants and agrees that so long as any Bonds, or any interest thereon, remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of its System separate and apart from all other records and accounts; complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, and that the Registered Owners of any Bonds or any duly authorized agent or agents of such Registered Owners shall have the right at all reasonable times to inspect all such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The Issuer further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountant, shall particularly include the following:

(i) A detailed statement of the income and expenditures of the System for such Fiscal Year.

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

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

(b) Expenses incurred in making the audits; referred to hereinabove are to be regarded as maintenance and operation expenses and paid as such. Copies of the aforesaid annual audit shall be immediately furnished, upon request, to the original purchaser or any subsequent Registered Owner of the Series 2018 Bonds.

Section 16. EXCESS REVENUES. As provided in Section 8 hereof, all revenues in excess of those required to establish and maintain the Interest and Sinking Fund and the Reserve Fund as required may be used for any proper purpose now or hereafter permitted by law.

Section 17. SECURITY FOR FUNDS. All funds created by the Ordinance shall be secured in the manner and to the fullest extent permitted by law for the security of public funds and the funds created by the ordinance shall be used only for the purposes therein specified.

Section 18. REMEDY IN EVENT OF DEFAULT. In addition to all the rights and remedies provided by the laws of the State of Texas, the Issuer covenants and agrees particularly that in the event the Issuer (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance (each an "Event of Default"), the Registered Owner or owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the Issuer and its officers to observe and perform any covenant, condition or obligation prescribed in the ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy provided shall be cumulative of all other existing remedies and the specifications of such remedy shall not be deemed to be exclusive.

Section 19. BONDS ARE SPECIAL OBLIGATIONS. The Bonds are and shall be special obligations of the Issuer payable from the pledged Net Revenues, and the Registered Owner or owners thereof shall never have the right to demand payment of said obligations out of funds raised or to be raised by taxation.

Section 20. BONDS ARE NEGOTIABLE INSTRUMENTS. Each of the Series 2018 Bonds authorized shall be deemed and construed to be a "security", and as such a negotiable instrument, within the meaning of Article 8 of the Texas Uniform Commercial Code.

Section 21. COMPETITION, SALE OF SYSTEM. So far as it legally may, the Issuer covenants and agrees, for the protection and security of the Bonds, and the Registered Owner or owners thereof from time to time, that it will not grant a franchise for the operation of any competing system in the Issuer until all Bonds shall have been retired. Neither the System, nor a substantial part thereof, shall be sold while the Bonds are outstanding, but nothing in the Ordinance shall prevent the sale of disposal of properties constituting a part of the System which are no longer needed or useful in connection with the operation thereof.

Section 22. ORDINANCE TO CONSTITUTE CONTRACT; AMENDMENTS. The provisions of the ordinance shall constitute a contract between the Issuer and the Registered Owner or owners from time to time of the Bonds and no change, variation or alteration of any kind of the provisions of the Ordinance may be made, except as permitted in this Section. The Issuer, may, without the consent of or notice to any Registered Owner or owners, from time to time, and at any time, amend this Ordinance in any manner not detrimental to the interests of the Registered Owner or owners of the Bonds, including the curing of any ambiguity, in consistency or formal defect or omission therein. In addition, with the written consent of the Registered Owner or owners holding a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Registered Owners of outstanding Bonds, no such amendment, addition or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) given any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission.

## TAX MATTERS

**TAX EXEMPTION** . . . In the opinion of Bracewell LLP, Bond Counsel, under existing law, (i) interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes and (ii) the Series 2018 Bonds are not "private activity bonds" under the Code, and, as such, interest on the Series 2018 Bonds 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 Series 2018 Bonds, such as the Series 2018 Bonds, 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 Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Series 2018 Bonds 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 the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Series 2018 Bonds could become includable in gross income from the date of delivery of the Series 2018 Bonds, 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 Series 2018 Bonds.

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 Series 2018 Bonds. 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 Series 2018 Bonds could adversely affect the value and liquidity of the Series 2018 Bonds regardless of the ultimate outcome of the audit.

**COLLATERAL TAX CONSEQUENCES** . . . Prospective purchasers of the Series 2018 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 Series 2018 Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Series 2018 Bonds 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 Series 2018 Bonds, received or accrued during the year.

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM** . . . The issue price of all or a portion of the Series 2018 Bonds may exceed the stated redemption price payable at maturity of such Series 2018 Bonds. Such Series 2018 Bonds (the "Premium Series 2018 Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Series 2018 Bond 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 Series 2018 Bond 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 Series 2018 Bond 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 Series 2018 Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Series 2018 Bond) is determined using the yield to maturity on the Premium Series 2018 Bond based on the initial offering price of such Premium Series 2018 Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Series 2018 Bonds 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 Series 2018 Bonds 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 Series 2018 Bond 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 Series 2018 Bonds.

**TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT** . . . The issue price of all or a portion of the Series 2018 Bonds may be less than the stated redemption price payable at maturity of such Series 2018 Bonds (the "Original Issue Discount Series 2018 Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Series 2018 Bond, and (ii) the initial offering price to the public of such Original Issue Discount Series 2018 Bond constitutes original issue discount with respect to such Original Issue Discount Series 2018 Bond in the hands of any owner who has purchased such Original Issue Discount Series 2018 Bond in the initial public offering of the Series 2018 Bonds. 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 Series 2018 Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Series 2018 Bond 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 Series 2018 Bonds 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 Series 2018 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Series 2018 Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Series 2018 Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Series 2018 Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Series 2018 Bonds 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 [inside] cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Series 2018 Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Series 2018 Bond 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 Series 2018 Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Series 2018 Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (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 Series 2018 Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Series 2018 Bonds 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 Series 2018 Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Series 2018 Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Series 2018 Bonds.

**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 Series 2018 Bonds, 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 Series 2018 Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Series 2018 Bonds. Prospective purchasers of the Series 2018 Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreements for the benefit of the holders and beneficial owners of the Series 2018 Bonds. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Series 2018 Bonds. 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 11 in Appendix A. The City will update and provide the information in Tables numbered 1 through 11 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 will provide notice to the MSRB of any of the following events with respect to the Series 2018 Bonds, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of Bondholders; (3) Series 2018 Bond calls; (4) release, substitution, or sale of property securing repayment of the Series 2018 Bonds; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, 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; and (6) appointment of a successor or additional trustee or the change of name of a trustee. The City will also provide notice to the MSRB of any of the following events with respect to the Series 2018 Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of 49 Proposed Issue (IRS Form 5701BTEB) or other material notices or determinations with respect to the tax status of the Series 2018 Bonds, or other material events affecting the tax status of the Series 2018 Bonds; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports."

For these purposes, any event described in (9) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

**AVAILABILITY OF INFORMATION. . .** All information and documentation filings required to be made by the City in accordance with its undertaking made for the Series 2018 Bonds 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 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 Series 2018 Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Series 2018 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Series 2018 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Series 2018 Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Series 2018 Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the 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 Series 2018 Bonds in the primary offering of the Series 2018 Bonds.

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

**Compliance with Prior Undertakings** . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The City 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 Series 2018 Bonds and the presently outstanding underlying rating of the System revenue debt of the City are rated "AA" by S&P and “Aa2” by Moody’s. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organizations 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 the rating company, if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating, may have an adverse effect on the market price of the Series 2018 Bonds.

### 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, of the pending litigation, if decided adversely to the City will not have a material adverse effect on the City’s financial position or operations or the Series 2018 Bonds.

### Registration and Qualification of Series 2018 Bonds for Sale

The sale of the Series 2018 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2018 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2018 Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Series 2018 Bonds under the securities laws of any jurisdiction in which the Series 2018 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2018 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Series 2018 Bonds 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 Series 2018 Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Series 2018 Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Series 2018 Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Series 2018 Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Series 2018 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 the Series 2018 Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Series 2018 Bonds and to the effect that the Series 2018 Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that interest on the Series 2018 Bonds is excludable from gross income for federal income tax purposes and the Series 2018 Bonds 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 Series 2018 Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Series 2018 Bonds. 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 the information under "Sources and Uses of Bond Proceeds") "The Series 2018 Bonds" (except for the information under the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies" and except the information in the second paragraph under the subcaption "Security and Source of Payment"), "Selected Provisions of the Bond Ordinance", "Tax Matters," "Continuing Disclosure of Information" (except for the information under the subcaption "Compliance with Prior Undertakings") "Other Information - Registration and Qualification of Series 2018 Bonds 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 Series 2018 Bonds 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 Series 2018 Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Series 2018 Bonds is contingent on the sale and delivery of the Series 2018 Bonds. The legal opinion will be attached to or accompany the definitive Series 2018 Bonds. 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, Dallas, Texas. The legal fee to be paid to counsel for the Underwriters for services rendered in connection with the issuance of the Series 2018 Bonds is contingent on the sale and delivery of the Series 2018 Bonds.

The legal opinions to be delivered concurrently with the delivery of the Series 2018 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Series 2018 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2018 Bonds is contingent upon the issuance and delivery of the Series 2018 Bonds. 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 Series 2018 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

## UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2018 Bonds from the City, at an underwriting discount of $55,896.55. The Underwriters will be obligated to purchase all of the Series 2018 Bonds if any Series 2018 Bonds are purchased. The Series 2018 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Series 2018 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2018 Bonds, 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 Series 2018 Bonds 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 regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

## LINKS TO WEBSITES

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement, and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

## MISCELLANEOUS

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

The Ordinance authorizing the issuance of the Series 2018 Bonds also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Series 2018 Bonds by the Underwriters in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ STAN PICKETT
Mayor
City of Mesquite, Texas

ATTEST:

/s/ SONJA LAND
City Secretary
City of Mesquite, Texas

**SCHEDULE OF REFUNDED BONDS**

**Waterworks and Sewer System Revenue Refunding and Improvement Bonds, Series 2008**

| Original Dated Date | Original Maturity Date | Interest Rates | Outstanding Principal Amount | Refunded Amount |
|---|---|---|---|---|
| 5/1/2008 | 3/1/2019 | 3.875% | $ 125,000 | $ 125,000 |
| | 3/1/2020 | 4.000% | 130,000 | 130,000 |
| | 3/1/2021 | 4.125% | 135,000 | 135,000 |
| | 3/1/2022 | 4.250% | 75,000 | 75,000 |
| | 3/1/2022 | 4.600% | 65,000 | 65,000 |
| | 3/1/2023 | 4.300% | 145,000 | 145,000 |
| | 3/1/2024 | 4.375% | 150,000 | 150,000 |
| | 3/1/2025 | 4.375% | 160,000 | 160,000 |
| | 3/1/2026 | 4.500% | 165,000 | 165,000 |
| | 3/1/2027 | 4.500% | 175,000 | 175,000 |
| | 3/1/2028 | 4.500% | 180,000 | 180,000 |
| | | | | $ 1,505,000 |

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

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**APPENDIX A**

**FINANCIAL INFORMATION REGARDING THE WATERWORKS AND SEWER SYSTEM**

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## FINANCIAL INFORMATION

**TABLE 1 – WATERWORKS AND SEWER SYSTEM REVENUE DEBT SERVICE REQUIREMENTS**

| Fiscal Year Ending 9/30 | Outstanding Debt Service[1] | | | The Series 2018 Bonds[2] | | | Total Debt Service | % of Principal Retired |
|---|---|---|---|---|---|---|---|---|
| | Principal | Interest | Total | Principal | Interest | Total | | |
| 2018 | $ 5,990,000 | $ 2,813,746 | $ 8,803,746 | $ - | $ - | $ - | $ 8,803,746 | |
| 2019 | 5,860,000 | 2,456,255 | 8,316,255 | 275,000 | 473,640 | 748,640 | 9,064,895 | |
| 2020 | 5,650,000 | 2,268,424 | 7,918,424 | 385,000 | 368,050 | 753,050 | 8,671,474 | |
| 2021 | 5,425,000 | 2,090,942 | 7,515,942 | 400,000 | 352,350 | 752,350 | 8,268,292 | |
| 2022 | 5,215,000 | 1,921,333 | 7,136,333 | 415,000 | 336,050 | 751,050 | 7,887,383 | 35.89% |
| 2023 | 4,870,000 | 1,755,984 | 6,625,984 | 435,000 | 319,050 | 754,050 | 7,380,034 | |
| 2024 | 5,050,000 | 1,582,981 | 6,632,981 | 445,000 | 301,450 | 746,450 | 7,379,431 | |
| 2025 | 4,685,000 | 1,392,544 | 6,077,544 | 465,000 | 283,250 | 748,250 | 6,825,794 | |
| 2026 | 4,595,000 | 1,192,019 | 5,787,019 | 485,000 | 264,250 | 749,250 | 6,536,269 | |
| 2027 | 4,115,000 | 999,500 | 5,114,500 | 510,000 | 244,350 | 754,350 | 5,868,850 | 66.98% |
| 2028 | 3,760,000 | 826,791 | 4,586,791 | 530,000 | 223,550 | 753,550 | 5,340,341 | |
| 2029 | 3,540,000 | 670,216 | 4,210,216 | 370,000 | 205,550 | 575,550 | 4,785,766 | |
| 2030 | 3,100,000 | 532,888 | 3,632,888 | 385,000 | 190,450 | 575,450 | 4,208,338 | |
| 2031 | 2,625,000 | 417,603 | 3,042,603 | 405,000 | 174,650 | 579,650 | 3,622,253 | |
| 2032 | 2,260,000 | 320,744 | 2,580,744 | 420,000 | 158,150 | 578,150 | 3,158,894 | 88.06% |
| 2033 | 2,020,000 | 237,763 | 2,257,763 | 440,000 | 138,750 | 578,750 | 2,836,513 | |
| 2034 | 1,755,000 | 160,525 | 1,915,525 | 460,000 | 116,250 | 576,250 | 2,491,775 | |
| 2035 | 1,440,000 | 91,350 | 1,531,350 | 485,000 | 92,625 | 577,625 | 2,108,975 | |
| 2036 | 1,055,000 | 40,163 | 1,095,163 | 510,000 | 67,750 | 577,750 | 1,672,913 | |
| 2037 | 585,000 | 10,238 | 595,238 | 535,000 | 41,625 | 576,625 | 1,171,863 | 99.32% |
| 2038 | - | - | - | 565,000 | 14,125 | 579,125 | 579,125 | 100.00% |
| Total | $ 73,595,000 | $ 21,782,006 | $ 95,377,006 | $ 8,920,000 | $ 4,365,915 | $ 13,285,915 | $ 108,662,921 | |

(1) Does not include the Refunded Bonds.
(2) Average life of the Series 2018 Bonds – 10.777 years.

**TABLE 2 – WATERWORKS AND SEWER SYSTEM COVERAGE AND FUND BALANCES[1]**

| | | |
|---|---|---|
| Average Annual Principal and Interest Requirements, 2018-2038 | $ | 5,174,425 |
| Coverage of Average Requirements by 9/30/17 Net Available for Debt Service | | 2.7x |
| | | |
| Maximum Principal and Interest Requirements, 2019 | $ | 9,064,895 |
| Coverage of Maximum Requirements by 9/30/17 Net Available for Debt Service | | 1.54x |
| | | |
| Waterworks and Sewer System Revenue Bonds Outstanding, 9/30/2017 | $ | 73,595,000 |
| Plus: The Series 2018 Revenue Bonds | | 8,920,000 |
| Total Water and Sewer System Revenue Bonds | $ | 82,515,000 |
| | | |
| Interest and Sinking Fund, 9/30/2017 | $ | 1,921,157 |
| | | |
| Reserve Fund, 9/30/2017[2] | $ | 290,331 |

(1) Includes the Series 2018 Bonds, excludes the Refunded Bonds.
(2) Remaining required balance funded with surety bond policies.

**TABLE 3 – WATER AND SEWER FUND FINANCIAL RATIOS ($ THOUSANDS)**

| | Fiscal Year Ending September 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenue Bond Coverage | | | | | |
| Net Revenue (Revenue less O&M Expense) | $ 13,955 | $ 12,970 | $ 16,092 | $ 12,178 | $ 10,846 |
| Average Annual Debt Service-Revenue Bond | 4,863 | 4,699 | 4,659 | 4,647 | 4,706 |
| Historical Coverage Ratio | 2.9x | 2.8x | 3.5x | 2.6x | 2.3x |
| Debt to Equity | | | | | |
| Long-term Debt | $ 75,100 | $ 73,105 | $ 72,195 | $ 71,660 | $ 72,095 |
| Equity | 113,580 | 106,311 | 100,448 | 101,184 | 102,189 |
| Debt to Equity Ratio - | 66.12% | 68.77% | 71.87% | 70.82% | 70.55% |
| % Debt | 39.80% | 40.75% | 41.82% | 41.46% | 41.37% |
| % Equity | 60.20% | 59.25% | 58.18% | 58.54% | 58.63% |

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**TABLE 4 – MONTHLY WATER AND SEWER RATES**

**Monthly Water Rates (Effective 10/1/2017)**

| | | | |
|---|---|---|---|
| Residential and Commercial | | | |
| 0.625 inch meter | $ | 13.75 | (Minimum) |
| 1.000 inch meter | | 19.10 | (Minimum) |
| 1.500 inch meter | | 25.45 | (Minimum) |
| 2.000 inch meter | | 31.80 | (Minimum) |
| 3.000 inch meter | | 38.15 | (Minimum) |
| 4.000 inch meter | | 44.50 | (Minimum) |
| 6.000 inch meter | | 49.80 | (Minimum) |
| | | | |
| 0-1,000 gallons | $ | - | included in minimum |
| 1,001 - 5,000 gallons | | 5.97 | per 1,000 gallons |
| 5,001 - 10,000 gallons | | 6.42 | per 1,000 gallons |
| 10,001 - 50,000 gallons | | 6.74 | per 1,000 gallons |
| 50,001 - 70,000 gallons | | 7.06 | per 1,000 gallons |
| 70,001 - 500,000 gallons | | 7.38 | per 1,000 gallons |
| Over 500,000 gallons | | 6.10 | per 1,000 gallons |
| | | | |
| Apartments (per unit) | | | |
| 0-1,000 gallons | $ | 13.75 | minimum per unit(1) |
| 1,001 - 5,000 gallons | | 5.97 | per 1,000 gallons per unit(1) |
| 5,001 - 10,000 gallons | | 6.42 | per 1,000 gallons per unit(1) |
| 10,001 - 50,000 gallons | | 6.74 | per 1,000 gallons per unit(1) |
| 50,001 - 70,000 gallons | | 7.06 | per 1,000 gallons per unit(1) |
| 70,001 - 500,000 gallons | | 7.38 | per 1,000 gallons per unit(1) |
| Over 500,000 gallons | | 6.10 | per 1,000 gallons per unit(1) |

(1) Apartment complexes with more than one unit are billed by dividing the total number of gallons consumed by the number of units in the apartment complex and computing the bill as though each unit was a separate residence using the average number of gallons.

**Monthly Sewer Rates ( Effective 10/1/2017)**

| | |
|---|---|
| **Residential** | |
| First 1,000 Gallons of water used | $15.50 |
| Over 1,000 Gallons if water used (8,000 gallons maximum) | $5.95/1,000 gallons |
| | |
| **Commercial** | |
| First 1,000 Gallons of water used | $15.15 |
| Over 1,000 Gallons if water used | $5.95/1,000 gallons |
| | |
| **Apartments** | |
| First 1,000 Gallons of water used | 15.15 per unit |
| Over 1,000 Gallons if water used | $5.95/1,000 gallons per unit |

**TABLE 5 – TEN LARGEST WATER AND SEWER CUSTOMERS FISCAL YEAR 2016-2017**

| Customer Name | Nature of Property | Revenue | % of Revenues[1] |
|---|---|---|---|
| Pepsi Bottling Group US | Soft Drink Bottlling | $ 1,553,440 | 2.43% |
| Mesquite Independent School District | Public School System | 1,374,898 | 2.15% |
| City of Mesquite | Municipal Government | 268,299 | 0.42% |
| Town East Mall | Shopping Mall | 413,997 | 0.65% |
| Garden Redevelopment, LLC | Apartments | 488,343 | 0.76% |
| Dallas County Community College | Higher Education | 322,883 | 0.51% |
| S2 Camelot LLC dba Camelot | Apartments | 434,841 | 0.68% |
| CNC Swagat Nine LTD | Apartments | 449,523 | 0.70% |
| Summit Hillcrest Apt LTD | Apartments | 373,628 | 0.58% |
| Ocean Barons, LP | Apartments | 360,285 | 0.56% |
| | | $ 6,040,137 | 9.46% |

(1) Based upon total 2017 actual revenues of $63,876,537.

**TABLE 6 – METER DISTRIBUTION**

| Fiscal Year Ended 9/30 | % Residential | % Commerical/ Industrial |
|---|---|---|
| 2008 | 92.0 | 8.0 |
| 2009 | 91.9 | 8.1 |
| 2010 | 91.9 | 8.1 |
| 2011 | 91.9 | 8.1 |
| 2012 | 91.9 | 8.1 |
| 2013 | 91.8 | 8.1 |
| 2014 | 91.9 | 8.1 |
| 2015 | 91.3 | 8.7 |
| 2016 | 91.6 | 8.4 |
| 2017 | 91.5 | 8.5 |

**TABLE 7 – HISTORICAL WATER USAGE**

| Fiscal Year Ending 9/30 | Average Daily Use In Gallons | Maximum Daily Use In Gallons | Total Gallons for Year |
|---|---|---|---|
| 2008 | 17,539,082 | 35,063,000 | 6,401,765,000 |
| 2009 | 17,388,844 | 34,169,000 | 6,346,928,000 |
| 2010 | 17,410,460 | 34,312,000 | 6,354,818,000 |
| 2011 | 18,887,203 | 33,882,000 | 6,893,829,000 |
| 2012 | 16,887,775 | 26,394,000 | 6,164,038,000 |
| 2013 | 15,925,953 | 26,445,000 | 5,812,973,000 |
| 2014 | 15,247,775 | 18,765,000 | 5,565,438,000 |
| 2015 | 16,041,342 | 24,988,000 | 5,855,090,000 |
| 2016 | 16,366,140 | 20,632,000 | 5,973,641,000 |
| 2017 | 15,762,830 | 18,899,000 | 5,753,433,000 |

**TABLE 8 – WATERWORKS AND SEWER SYSTEM OPERATING SYSTEM**

| | Fiscal Year Ending September 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Revenue [1] | $ 63,876,537 | $ 59,870,312 | $ 53,676,246 | $ 46,909,102 | $ 44,974,968 |
| Expense[2] Excluding Depreciation and Interest Expense | 49,921,956 | 46,899,920 | 37,584,068 | 34,731,035 | 34,046,541 |
| Net Available for Debt Service | $ 13,954,581 | $ 12,970,392 | $ 16,092,178 | $ 12,178,067 | $ 10,928,427 |
| Water Customers | 40,471 | 40,304 | 40,115 | 39,453 | 39,284 |
| Sewer Customers | 38,735 | 38,601 | 38,811 | 38,251 | 38,056 |
| Coverage of Average Annual Debt Service | 2.78x | 2.76x | 3.51x | 2.53x | 2.24x |
| Coverage of Maximum Annual Debt Service | 1.58x | 1.58x | 2.02x | 1.50x | 1.34x |

(1) Includes operating and non-operating income.
(2) Effective with fiscal year 2016, transfers out are included.

**TABLE 9 – BOOK VALUE OF THE WATERWORKS AND SEWER SYSTEM**

| | Fiscal Year Ending September 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Fixed Assets | | | | | |
| Land | $ 1,184,228 | $ 957,777 | $ 957,777 | $ 957,777 | $ 957,777 |
| Utility Plant and Equipment | 224,003,229 | 217,507,114 | 216,330,532 | 212,017,627 | 210,068,617 |
| Equipment | 8,537,844 | 8,097,329 | 7,104,874 | 6,926,561 | 5,569,946 |
| Construction in Progress | 10,459,465 | 8,543,742 | 3,474,385 | 4,074,397 | 1,586,797 |
| Total Book Value | $ 244,184,766 | $ 235,105,962 | $ 227,867,568 | $ 223,976,362 | $ 218,183,137 |
| Less: Accumulated Depreciation | (93,162,712) | (88,014,165) | (83,107,345) | (78,972,185) | (74,367,450) |
| Net Plant Book Value | $ 151,022,054 | $ 147,091,797 | $ 144,760,223 | $ 145,004,177 | $ 143,815,687 |

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**TABLE 10 – EQUITY IN THE SYSTEM**

| | Fiscal Year Ending September 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Resources | | | | | |
| Net Plant Book Value | $151,022,054 | $147,091,797 | $144,760,223 | $145,004,177 | $143,815,687 |
| Construction, Interest & Sinking and Reserve Funds | 22,203,479 | 20,279,142 | 19,686,958 | 19,246,535 | 18,301,755 |
| Cash, Invest, Receivables and Deferred Charges | 33,662,887 | 27,460,574 | 21,435,727 | 17,749,795 | 19,487,165 |
| Total Resources | $206,888,420 | $194,831,513 | $185,882,908 | $182,000,507 | $181,604,607 |
| Liabilities | | | | | |
| Revenue Obligations Payable-Noncurrent | $ 71,732,348 | $ 69,424,130 | $ 68,087,306 | $ 67,529,992 | $ 67,018,424 |
| Current Liabilities | 5,864,922 | 5,751,390 | 5,291,825 | 5,060,583 | 4,788,342 |
| Liabilities for Comp. Absences | 903,451 | 960,198 | 1,004,057 | 1,099,568 | 1,049,705 |
| Other Obligations | 14,807,454 | 12,384,328 | 11,051,641 | 7,126,717 | 6,559,378 |
| Total Obligations | $ 93,308,175 | $ 88,520,046 | $ 85,434,829 | $ 80,816,860 | $ 79,415,849 |
| City's Equity in the System | $113,580,245 | $106,311,467 | $100,448,079 | $101,183,647 | $102,188,758 |
| Percentage of Equity in the System | 54.90% | 54.57% | 54.04% | 55.60% | 56.27% |

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**TABLE 11 – COMPARATIVE WATER AND SEWER OPERATING INFORMATION**

| | Fiscal Year Ending September 30, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| Operating Revenue | | | | | |
| Customer Charges | $63,465,144 | $59,676,483 | $53,558,955 | $46,795,006 | $44,858,929 |
| Other | - | - | - | - | - |
| Total Operating Revenue | $63,465,144 | $59,676,483 | $53,558,955 | $46,795,006 | $44,858,929 |
| Operating Expenses | | | | | |
| Personnel Services | $ 6,940,303 | $ 6,470,854 | $ 6,062,692 | $ 5,459,118 | $ 5,415,692 |
| Supplies | 383,017 | 1,598,254 | 1,353,570 | 1,043,329 | 2,174,169 |
| Contractual Services | 36,333,541 | 33,411,148 | 30,126,661 | 28,228,588 | 26,384,638 |
| Depreciation | 5,418,872 | 5,139,583 | 4,926,170 | 4,735,500 | 4,409,774 |
| Total Operating Expenses | $49,075,733 | $46,619,839 | $42,469,093 | $39,466,535 | $38,384,273 |
| Operating Income | $14,389,411 | $13,056,644 | $11,089,862 | $ 7,328,471 | $ 6,474,656 |
| Non-Operating Revenue (Expense) | | | | | |
| Interest Earned | $ 291,040 | $ 156,053 | $ 62,254 | $ 30,301 | $ 33,407 |
| Gain on sale of capital assets | 55,452 | 37,776 | 55,037 | 33,538 | - |
| Other Non-Operating Revenue | 64,901 | - | (41,145) | 83,795 | 82,632 |
| Interest Expense | (2,446,270) | (2,706,729) | (2,754,059) | (3,089,284) | (2,867,643) |
| Other Non-Operating Expense | - | - | - | - | (72,042) |
| Total Non-Operating Revenue (Expense) | (2,034,877) | (2,512,900) | (2,677,913) | (2,941,650) | (2,823,646) |
| Income before operating transfers | $12,354,534 | $10,543,744 | $ 8,411,949 | $ 4,386,821 | $ 3,651,010 |
| Capital Contributions | $ 729,339 | $ 659,308 | $ 519,313 | $ 787,511 | $ 614,607 |
| Transfers In | 450,000 | 80,000 | | | |
| Transfers Out | (6,265,095) | (5,419,664) | (5,200,720) | (5,003,352) | (5,028,728) |
| Net Income (Loss) | $ 7,268,778 | $ 5,863,388 | $ 3,730,542 | $ 170,980 | $ (763,111) (1) |

(1) The net loss is attributable to mandatory water conservation as a result of the continuing drought, as well as rate increases from the City's wholesale water provider. The City raised water and wastewater rates as of October 1, 2013 after conducting a water and wastewater rate study in 2014. City Council approved a tiered rate structure with rate increases effective November 1, 2014.

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**TABLE 12 – 2017-2018 ADOPTED BUDGET WATER AND SEWER FUND**

| | | Adopted Budget 2017-2018 |
|---|---|---|
| Revenues: | | |
| Water Sales | $ | 34,500,000 |
| Water Taps & Connections | | 25,000 |
| Penalty Income | | 650,000 |
| Collection/Charged Off Bills | | 17,000 |
| Sale of Bulk Water | | 925,000 |
| Reconnect Fees | | 353,000 |
| Sewer Service | | 28,060,000 |
| Lower East Fork Sewer Line | | 1,451,770 |
| Sewer Backflow Inspection | | 60,000 |
| Utility Service Transfer | | - |
| Interest Income | | 100,000 |
| Miscellaneous | | 300,000 |
| Total Revenues | $ | 66,441,770 |
| | | |
| **Expenses:** | | |
| **Operating Expenses:** | | |
| Administration | $ | 427,280 |
| Water and Sewer Accounting | | 3,883,670 |
| Water and Sewer Engineering | | 119,330 |
| Infrastructure Management | | 173,060 |
| G.I.S. Operations | | 597,870 |
| Water Production | | 23,727,280 |
| Meter Services | | 1,036,480 |
| Water Distribution | | 2,206,780 |
| Wastewater Collection | | 1,558,870 |
| Wastewater Treatment | | 9,379,810 |
| Chiller Plant Operations | | 399,450 |
| **Total Operating Expenses:** | $ | 43,509,880 |
| | | |
| **Non-Operating Expenses:** | | |
| NTMWD-Lower East Fork Sewer Line | | 1,451,770 |
| Water and Sewer General Fund Transfer | | 4,550,000 |
| Water and Sewer Debt Service Transfer | | 9,762,020 |
| Water and Sewer Insurance | | 1,405,000 |
| Water and Sewer Capital | | 920,400 |
| Water and Sewer Reserves | | 457,000 |
| **Total Non-Operating Expenses:** | $ | 18,546,190 |
| | | |
| **Total Expenses:** | $ | 62,056,070 |
| | | |
| Excess (Deficiency) Revenues Over Expenses | $ | 4,385,700 |
| Working Capital, October 1, 2017 | $ | 27,049,225 |
| Working Capital, September 30, 2018 | $ | 31,434,925 |

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**

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## 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 1,200 persons full time.

## POPULATION

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

| Year | Population | Source |
|---|---|---|
| 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 2017 | Annual 2016 | Annual 2015 | Annual 2014 | Annual 2013 |
|---|---|---|---|---|---|
| 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:

| Company Name | Nature of Business | Number of Employees |
|---|---|---|
| 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 |
| OroraVisual | 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 l6-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:

| | New Commerical | | New Residential | | Other* | |
|---|---|---|---|---|---|---|
| Year Ended | Number of Units | Amount | Number of Units | Amount | Value | Total 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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BKD LLP
CPAs & Advisors

14241 Dallas Parkway, Suite 1100 // Dallas, TX 75254-2961
972.702.8262 // fax 972.702.0673 // bkd.com

# 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
TEXAS
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**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 positon, 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 | 346,956 | 345,001 | 263,227 | 245,282 | 610,183 | 590,283 |
| 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 | 318,303 | 310,958 | 99,681 | 94,790 | 417,984 | 405,748 |
| Deferred inflow of recources | 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 | $ 53,187 | $ 63,241 | $ 166,731 | $ 153,585 | $ 219,918 | $ 216,826 |

Within the total net positon, 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 | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| 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 | 148,357 | 139,877 | 71,602 | 65,935 | 219,959 | 205,812 |
| 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 | 160,553 | 155,554 | 56,314 | 53,598 | 216,867 | 209,152 |
| Increase (decrease) in net position before transfers | (12,196) | (15,677) | 15,288 | 12,337 | 3,092 | (3,340) |
| Transfers | 2,142 | 5,235 | (2,142) | (5,235) | - | - |
| Increase (decrease) in net posiiton | (10,054) | (10,442) | 13,146 | 7,102 | 3,092 | (3,340) |
| Net position - Beginning | 63,241 | 73,683 | 153,585 | 146,483 | 216,826 | 220,166 |
| Net position - Ending | $ 53,187 | $ 63,241 | $ 166,731 | $ 153,585 | $ 219,918 | $ 216,826 |

**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 and 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 | $ 253,606 | $ 236,496 | $ 201,732 | $ 192,107 | $ 455,338 | $ 428,603 |

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, rennovations 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 | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| 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 | - | - | 76,725 | 75,165 | 76,725 | 75,165 |
| Totals | $ 160,830 | $ 162,807 | $ 81,101 | $ 78,510 | $ 241,931 | $ 241,317 |

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 MANAGMENT

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 Activities | Business-type Activities | Total |
|---|---|---|---|
| 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 |
| Prepaids 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) | 211,465,115 | 175,669,202 | 387,134,317 |
| Total Assets | 346,955,883 | 263,227,158 | 610,183,041 |
| 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 | 125,810 | 544,671 | 670,481 |
| Total Deferred Outflows of Resources | 27,697,869 | 3,751,407 | 31,449,276 |
| 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 | 1,459,412 | - | 1,459,412 |
| Total Liabilities | 318,303,390 | 99,681,024 | 417,984,414 |
| 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 | 370,286 | 300,195 | 670,481 |
| Total Deferred Inflows of Resources | 3,163,004 | 566,734 | 3,729,738 |
| 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 | (90,140,677) | 23,386,416 | (66,754,261) |
| Total Net Position | $ 53,187,358 | $ 166,730,807 | $ 219,918,165 |

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 | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| 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 | 160,553,291 | 33,585,620 | 14,995,384 | 1,124,776 |
| 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 | 56,314,361 | 70,111,846 | 66,621 | 1,024,787 |
| Total function / program activities | $ 216,867,652 | $ 103,697,466 | $ 15,062,005 | $ 2,149,563 |

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 | | |
|---|---|---|
| Governmental Activities | Business-type Activities | Total |
| $ (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) |
| (6,081,038) | - | (6,081,038) |
| (110,847,511) | - | (110,847,511) |
| | | |
| - | 12,713,826 | 12,713,826 |
| - | 2,431,880 | 2,431,880 |
| - | (256,813) | (256,813) |
| - | 14,888,893 | 14,888,893 |
| | | |
| (110,847,511) | 14,888,893 | (95,958,618) |
| | | |
| 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 |
| 2,142,644 | (2,142,644) | - |
| 100,793,686 | (1,743,222) | 99,050,464 |
| (10,053,825) | 13,145,671 | 3,091,846 |
| 63,241,183 | 153,585,136 | 216,826,319 |
| $ 53,187,358 | $ 166,730,807 | $ 219,918,165 |

## City of Mesquite, Texas

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

| | General | Housing Grants | Local Finance | Bond Finance | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| 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 |
| Prepaids and other assets | 34,507 | - | - | - | - | 34,507 |
| Accrued interest | 9,864 | 570 | 6,973 | 15,459 | 5,212 | 38,078 |
| Total Assets | $ 30,055,912 | $ 1,447,782 | $ 17,526,943 | $ 30,578,502 | $ 14,988,584 | $ 94,597,723 |
| 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 |
| Total Liabilities | 4,123,719 | 16,826 | 336,735 | 5,145,518 | 1,098,342 | 10,721,140 |
| DEFERRED INFLOWS OF RESOURCES: | | | | | | |
| Unavailable revenue | 5,702,216 | 82,185 | 22,200 | - | - | 5,806,601 |
| 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 | 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 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 30,055,912 | $ 1,447,782 | $ 17,526,943 | $ 30,578,502 | $ 14,988,584 | $ 94,597,723 |

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 | (19,452,186) | |
| | | (278,433,438) |
| Net position of governmental activities | | $ 53,187,358 |

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) |
| 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. | | (371,791) |
| 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. | | |
| Capital outlay expenditures | 33,453,258 | |
| Depreciation expense | (13,006,852) | |
| | | 20,446,406 |
| 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. | | (3,851,515) |
| 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. | | 546,218 |
| 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. | | (692,424) |
| 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. | | |
| Principal amount of debt issued | (15,885,000) | |
| Refunded bond debt amortization | (260,288) | |
| Principal amount of debt payed 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 | 1,125,221 | |
| | | 2,713,147 |
| 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. | | (381,439) |
| 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. | | (11,418,660) |
| 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. | | (439,153) |
| Change in net position of governmental activities | | $ (10,053,825) |

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**

| | Budgeted Amounts | | | Variance with Final Budget - Positive |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | (Negative) |
| 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 | 104,079,200 | 104,893,200 | 106,398,904 | 1,505,704 |
| 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 | 95,005,171 | 94,183,706 | 94,562,612 | (378,906) |
| EXCESS OF REVENUES OVER EXPENDITURES | 9,074,029 | 10,709,494 | 11,836,292 | 1,126,798 |
| 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) | (9,050,000) | (10,216,300) | (9,882,800) | 333,500 |
| NET CHANGE IN FUND BALANCE | $ 24,029 | $ 493,194 | 1,953,492 | $ 1,460,298 |
| FUND BALANCE AT BEGINNING OF YEAR | | | 18,276,485 | |
| FUND BALANCE AT END OF YEAR | | | $ 20,229,977 | |

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

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|
| 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 |
| TOTAL REVENUES | 12,566,300 | 12,943,100 | 13,256,421 | 313,321 |
| EXPENDITURES: | | | | |
| Current- | | | | |
| Housing and community services | 12,205,250 | 12,590,047 | 12,847,023 | (256,976) |
| TOTAL EXPENDITURES | 12,205,250 | 12,590,047 | 12,847,023 | (256,976) |
| EXCESS OF REVENUES OVER EXPENDITURES | 361,050 | 353,053 | 409,398 | 56,345 |
| OTHER FINANCING USES: | | | | |
| Transfers out | (150,000) | (150,000) | (150,000) | - |
| TOTAL OTHER FINANCING USES | (150,000) | (150,000) | (150,000) | - |
| NET CHANGE IN FUND BALANCE | $ 211,050 | $ 203,053 | 259,398 | $ 56,345 |
| FUND BALANCE AT BEGINNING OF YEAR | | | 1,089,373 | |
| FUND BALANCE AT END OF YEAR | | | $ 1,348,771 | |

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 | | | | |
|---|---|---|---|---|---|
| | Major Funds | | Non-Major Funds | | |
| | Water and Sewer | Drainage Utility District | Other Enterprise Funds | Totals | Governmental Activities- Internal Service Funds |
| 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 | - |
| Prepaids and other assets | - | - | - | - | 324,675 |
| Accrued interest | 17,530 | 2,738 | - | 20,268 | 530 |
| Total current assets | 55,576,035 | 6,246,129 | 148,470 | 61,970,634 | 1,563,391 |
| 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 | 151,312,385 | 30,674,072 | 20,409,901 | 202,396,358 | - |
| Total Assets | 206,888,420 | 36,920,201 | 20,558,371 | 264,366,992 | 1,563,391 |
| 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 proportinal 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 | 2,857,746 | 205,618 | 688,043 | 3,751,407 | - |
| 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 | 6,043,381 | 684,663 | 259,484 | 6,987,528 | 6,256,337 |
| 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 | 8,482,728 | 461,001 | - | 8,943,729 | - |
| Total current liabilities | 14,526,109 | 1,145,664 | 259,484 | 15,931,257 | 6,256,337 |
| 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 | 81,261,519 | 1,880,579 | 737,254 | 83,879,352 | 1,459,412 |
| Total Liabilities | 95,787,628 | 3,026,243 | 996,738 | 99,810,609 | 7,715,749 |
| 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 | 378,293 | 107,016 | 81,425 | 566,734 | - |
| 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) | $ 113,580,245 | $ 33,992,560 | $ 20,168,251 | $ 167,741,056 | $ (6,152,358) |
| 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 | | | | $ 166,730,807 | |

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 | | | | |
|---|---|---|---|---|---|
| | Major Funds | | Non-Major Funds | | Governmental |
| | | Drainage | Other | | Activities- |
| | Water and | Utility | Enterprise | | Internal Service |
| | Sewer | District | Funds | Totals | Funds |
| 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 | 63,465,144 | 3,965,465 | 2,681,237 | 70,111,846 | 14,999,801 |
| 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 | 49,075,733 | 1,771,219 | 2,939,770 | 53,786,722 | 15,470,799 |
| Operating income (loss) | 14,389,411 | 2,194,246 | (258,533) | 16,325,124 | (470,998) |
| 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) | (2,034,877) | (9,522) | 6,358 | (2,038,041) | 8,290 |
| 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) | 7,268,778 | 2,263,172 | 3,637,276 | 13,169,226 | (462,708) |
| Total net position (deficit) - beginning of year | 106,311,467 | 31,729,388 | 16,530,975 | 154,571,830 | (5,689,650) |
| Total net position (deficit) - ending | $ 113,580,245 | $ 33,992,560 | $ 20,168,251 | | $ (6,152,358) |

| | |
|---|---|
| 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 | $ 13,145,671 |

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 | | | | |
|---|---|---|---|---|---|
| | Major Funds | | Non-Major Funds | | |
| | Water and Sewer | Drainage Utility District | Other Enterprise Funds | Totals | Governmental Activities- Internal Service Funds |
| 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 | 18,697,826 | 3,245,791 | 111,412 | 22,055,029 | 181,481 |
| 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 | (5,727,847) | - | (116,050) | (5,843,897) | 379,274 |
| 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 | (7,227,651) | (3,103,566) | 4,600 | (10,326,617) | - |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | | | |
| Interest received on investments | 308,093 | 50,687 | 38 | 358,818 | 8,726 |
| Net cash provided by investing activities | 308,093 | 50,687 | 38 | 358,818 | 8,726 |
| 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 | 38,503,071 | 5,867,288 | 252 | 44,370,611 | 668,706 |
| POOLED CASH AND CASH EQUIVALENTS AT END OF YEAR | $ 44,553,492 | $ 6,060,200 | $ 252 | $ 50,613,944 | $ 1,238,187 |
| 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 | 290,331 | 373,850 | - | 664,181 | - |
| | $ 44,553,492 | $ 6,060,200 | $ 252 | $ 50,613,944 | $ 1,238,187 |

(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 | | | | |
|---|---|---|---|---|---|
| | Major Funds | | Non-Major Funds | | Governmental |
| | Water and Sewer | Drainage Utility District | Other Enterprise Funds | Totals | Activities- Internal Service Funds |
| 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 | - |
| Prinicipal 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

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

The accompanying notes are an integral part of this statement.

## Index

## 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.

***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 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 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.

***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 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 |

***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.

***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.

- 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 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.

**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.

### 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.

### 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 | $119,915,255 | |

*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 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

**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 | 31,905,945 | - | 31,905,945 | - |
| **Investments measured at net asset value** | | | | |
| Texas CLASS | 42,576,444 | | | |
| TexSTAR | 18,465,483 | | | |
| Money Market Fund | 10,083,561 | | | |
| | 71,125,488 | | | |
| **Investment measured at amortized cost** | | | | |
| TexPool | 16,883,822 | | | |
| **Total investments** | $ 119,915,255 | | | |

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

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:

| | General | Housing Grants | Local Finance | Water and Sewer | Drainage Utility District | Nonmajor and Other Funds | Total |
|---|---|---|---|---|---|---|---|
| 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 | $ 17,563,277 | $ 82,185 | $ 249,629 | $ 10,976,730 | $ 557,041 | $ 2,479,644 | $ 31,908,505 |

The governmental funds report unavailable revenues from the following sources:

| Source of revenue | Total |
|---|---|
| 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 | $ 5,806,601 |

## 6. CAPITAL ASSETS

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

| | Beginning Balance | Additions and Transfers | Deletions and Transfers | Ending Balance |
|---|---|---|---|---|
| **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 | 37,088,298 | 14,378,691 | 9,326,500 | 42,140,489 |
| 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 | 433,461,348 | 27,538,852 | 6,200,202 | 454,799,998 |
| 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 | 234,053,847 | 13,006,853 | 3,725,819 | 243,334,881 |
| Total capital assets, being depreciated, net | 199,407,501 | 14,531,999 | 2,474,383 | 211,465,117 |
| Governmental activities capital assets, net | $ 236,495,799 | $ 28,910,690 | $ 11,800,883 | $ 253,605,606 |
| **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 | 19,529,441 | 9,618,559 | 3,085,027 | 26,062,973 |
| 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 | 281,635,083 | 7,760,197 | (3,404,623) | 292,799,903 |
| 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 | 109,057,461 | 7,093,752 | (979,487) | 117,130,701 |
| Total capital assets, being depreciated, net | 172,577,622 | 666,445 | (2,425,136) | 175,669,202 |
| Business-type activities capital assets, net | $ 192,107,063 | $ 10,285,004 | $ 659,891 | $ 201,732,176 |

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 | $ 13,006,853 |
| **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 | $ 7,093,753 |

***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:

| | Spent-to-date | Remaining Construction Commitments |
|---|---|---|
| **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 | $ 18,924,513 | $ 25,020,391 |
| **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 | $ 13,840,738 | $ 9,014,201 |

## 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:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| 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:

| Fund | Transfers In | Transfers Out |
|---|---|---|
| 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 | - | - |
| | $ 25,064,780 | $ 25,064,780 |

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 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.

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

| Governmental Activities | Issued Amount | Interest Rate (%) | Maturity Date | Amount Outstanding | Due Within One Year |
|---|---|---|---|---|---|
| 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 | - |
| | | | | 82,210,000 | 4,670,000 |
| 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 |
| | | | | 69,235,000 | 8,135,000 |
| 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 | | | | $ 160,830,301 | $ 14,808,544 |

| | Issued Amount | Interest Rate (%) | Maturity Date | Amount Outstanding | Due Within One Year |
|---|---|---|---|---|---|
| Business-type Activities- | | | | | |
| 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 |
| | | | | 75,100,000 | 5,990,000 |
| Drainage Utility System Revenue Bonds- | | | | | |
| Series 2011 refunding | 4,385,000 | 2.00-3.750 | 03/01/22 | 1,625,000 | 450,000 |
| | | | | 1,625,000 | 450,000 |
| 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 | | | | 81,101,177 | 6,960,083 |
| Net long-term bonded debt | | | | $ 243,294,320 | $ 18,203,661 |

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

| Fiscal Year Ending September 30 | Governmental Activities Principal | Governmental Activities Interest | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|---|---|
| 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 | $ 151,445,000 | $ 45,985,770 | $ 76,725,000 | $ 22,292,047 |

***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 | (139,783) | (69,772) |
| Reacquisition price | 8,606,646 | 5,291,282 |
| Net carrying amount of old debt | 8,094,962 | 4,982,254 |
| Deferred amount on refunding | $ 511,684 | $ 309,028 |
| Decrease in total debt service payments of new debt over old debt | $ 707,791 | $ 425,919 |
| Economic gain on refunding | $ 595,164 | $ 352,878 |

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 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:

| | Governmental Activities | |
|---|---|---|
| Fiscal Year Ending September 30 | Principal | Interest |
| 2018 | 578,096 | 23,702 |
| Total | $ 578,096 | $ 23,702 |

***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.

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

| | Beginning Balance | Additions | Reductions | Refundings/ Adjustments | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|---|
| 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 | 162,806,721 | 17,362,154 | 11,243,574 | (8,095,000) | 160,830,301 | 14,808,544 |
| 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 | 2,963,662 | 13,966,773 | 13,549,963 | - | 3,380,472 | 1,921,060 |
| Total governmental activities | 301,065,439 | 39,474,602 | 26,096,266 | (8,095,000) | 306,348,775 | 24,522,982 |
| 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 | 1,092,583 | 115,660 | 88,030 | - | 1,120,213 | 284,938 |
| Total business-type activities | 87,942,064 | 14,694,334 | 6,530,419 | (4,975,000) | 91,130,979 | 7,245,021 |
| Total long-term liabilities | $ 389,007,502 | $ 54,168,936 | $ 32,626,685 | $ (13,070,000) | $ 397,479,754 | $ 31,768,003 |

## 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, 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 | 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 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.

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:

| 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 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.

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 | - |
| | $ 27,601,217 | $ 3,725,934 |

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 | $ 17,470,869 |

**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 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

($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 | 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.

## 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.

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

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.

## 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. Rebatable 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 | $ 56,570,000 |

***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.

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:** | | | | | | |
| Prepaids | $ 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.

## 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 OPINION

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[Form of Bond Counsel Opinion]

$8,920,000
CITY OF MESQUITE, TEXAS
WATERWORKS AND SEWER SYSTEM
REVENUE REFUNDING AND IMPROVEMENT BONDS
SERIES 2018

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

> CITY OF ARLINGTON, TEXAS, WATERWORKS AND SEWER SYSTEM REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2018, dated May 1, 2018, in the principal amount of $8,920,000.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds 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 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 Issuer or the disclosure thereof in connection with the sale of the Bonds.

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 Issuer and customary certificates of officers, agents and representatives of the Issuer; 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"); and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have examined executed Bond No. 1 of this issue. 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. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance adopted by the Issuer with respect to the issuance of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(A) 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 special obligations of the Issuer; and

(B) The Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the City's water and wastewater system, as defined and described in the Ordinance.

(C) 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, as such, interest on the Bonds 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 Underwriter with respect to matters solely within the knowledge of the Issuer, the Issuer's Financial Advisor and the Underwriter, respectively, which we have not independently verified and have assumed for purposes of this opinion 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. In the event that such representations are determined to be inaccurate or incomplete or the Issuer 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 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 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 thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given 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 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 Bonds as includable in gross income for federal income tax purposes.

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