**OFFICIAL STATEMENT**
**Dated July 22, 2013**

**Ratings:**
**Moody's: "Aa2"**
**See ("OTHER INFORMATION - RATINGS" herein)**

**NEW ISSUE - Book-Entry-Only**

*In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein, and is not includable in the alternative minimum taxable income of individuals and corporations. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.*

THE BONDS **HAVE BEEN** DESIGNATED AS "QUALIFIED TAX-EXEMPT BONDS" FOR FINANCIAL INSTITUTIONS

**$8,730,000**
**CITY OF MISSOURI CITY, TEXAS**
**(Fort Bend and Harris Counties)**
**GENERAL OBLIGATION REFUNDING BONDS,**
**SERIES 2013**

**Dated Date: August 1, 2013** **Due: June 15, as shown on inside cover page**

**PAYMENT TERMS** . . . Interest on the $8,730,000 City of Missouri City, Texas General Obligation Refunding Bonds, Series 2013 (the "Bonds") will accrue from August 1, 2013 (the "Dated Date"), and will be payable June 15 and December 15 of each year commencing December 15, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds, respectively, may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is Wells Fargo Bank, N.A., Dallas, Texas (see "THE BONDS - PAYING AGENT/REGISTRAR").

**AUTHORITY FOR ISSUANCE OF THE BONDS** . . . The Bonds are issued by the City of Missouri City, Texas (the "City") pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance passed by the City Council of the City (the " Bond Ordinance") on June 17, 2013 in which the City Council delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who has approved and executed a "Pricing Certificate" completing the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance") (see "THE BONDS - AUTHORITY FOR ISSUANCE").

**PURPOSE**. . . Proceeds from the sale of the Bonds will be used (i) to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") and (ii) to pay the costs associated with the issuance of the Bonds and the Refunded Obligations.

See Maturity Schedule on the inside cover page

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 15, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption maturity (see "THE BONDS - OPTIONAL REDEMPTION").

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the underwriter listed below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Houston, Texas (see APPENDIX C, "FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston, Texas.

**DELIVERY**. . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on August 21, 2013.

# BOSC, INC.

***A subsidiary of BOK Financial Corporation***

## MATURITY SCHEDULE

### $8,730,000 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013

| Principal | Maturity June 15 | Rate | Price or Yield | CUSIP Numbers[1] | Principal | Maturity June 15 | Rate | Price or Yield | CUSIP Numbers[1] |
|---|---|---|---|---|---|---|---|---|---|
| $ 70,000 | 2014 | 2.000 % | 0.500 % | 606020 D28 | $ 1,155,000 | 2021 | 3.000 % | 2.370 % | 606020 D93 |
| 35,000 | 2015 | 2.000 | 0.800 | 606020 D36 | 1,200,000 | 2022 [2] | 3.000 | 2.620 | 606020 E27 |
| 35,000 | 2016 | 2.000 | 1.100 | 606020 D44 | 1,245,000 | 2023 [2] | 3.500 | 2.820 | 606020 E35 |
| 465,000 | 2017 | 3.000 | 1.320 | 606020 D51 | 1,285,000 | 2024 [2] | 4.000 | 2.970 | 606020 E43 |
| 475,000 | 2018 | 3.000 | 1.570 | 606020 D69 | 735,000 | 2025 [2] | 4.000 | 3.100 | 606020 E50 |
| 485,000 | 2019 | 3.000 | 1.820 | 606020 D77 | 745,000 | 2026 [2] | 4.000 | 3.250 | 606020 E68 |
| 800,000 | 2020 | 3.000 | 2.120 | 606020 D85 | | | | | |

**(Accrued Interest from August 1, 2013 to be added)**

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

(2) The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 15, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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

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

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*The 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.*

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

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

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

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**APPENDICES**



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

## OFFICIAL STATEMENT SUMMARY

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

**THE CITY** ..................................... The City of Missouri City is a political subdivision and municipal corporation of the State of Texas, located in Fort Bend and Harris Counties, Texas. The City covers approximately 30.4 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").

**THE BONDS** .................................. The Bonds are issued as $8,730,000 General Obligation Refunding Bonds, Series 2013. The Bonds are issued as serial bonds maturing 2014 through 2026 (see "THE BONDS - DESCRIPTION OF THE BONDS").

**PAYMENT OF INTEREST** .............. Interest on the Bonds accrues from August 1, 2013, and is payable December 15, 2013, and each June 15 and December 15 thereafter until maturity (see "THE BONDS - DESCRIPTION OF THE BONDS"

**AUTHORITY FOR ISSUANCE**.......... The Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207 Texas Government Code, as amended, and the Ordinance (see "THE BONDS - AUTHORITY FOR ISSUANCE").

**SECURITY FOR THE BONDS** .......... The Bonds constitute direct and voted obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS - SECURITY AND SOURCE OF PAYMENT FOR THE BONDS").

**QUALIFIED TAX-EXEMPT OBLIGATIONS** ............................... The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "QUALIFIED TAX EXEMPT OBLIGATIONS").

**REDEMPTION** .............................. The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 15, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 15, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - OPTIONAL REDEMPTION").

**TAX EXEMPTION**........................... In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein, and is not includable in the alternative minimum taxable income of individuals and corporations. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.

**USE OF PROCEEDS** .........................Proceeds from the sale of the Bonds will be used (i) to refund the Refunded Obligations and (ii) to pay the costs associated with the issuance of the Bonds and the Refunded Obligations.

**RATINGS** ..................................... The presently outstanding tax supported debt of the City is rated "Aa2" by Moody's Investors Service, Inc., "AA-" by Standard & Poor's Ratings Services, A Division of The McGraw-Hill Companies, Inc., and “AA” by Fitch Ratings, without regard to credit enhancement (see "OTHER INFORMATION - RATINGS"). The Bonds have been rated “Aa2” by Moody’s

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

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

## SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 6/30 | Estimated City Population(1) | Taxable Assessed Valuation | Per Capita Taxable Assessed Valuation | General Obligation (G.O.) Tax Debt(2) | Per Capita G. O. Tax Debt | Ratio G.O. Tax Debt to Taxable Assessed Valuation | % of Total Tax Collections(3) |
|---|---|---|---|---|---|---|---|
| 2009 | 68,047 | $ 4,324,698,468 | $ 63,555 | $ 89,319,997 | $ 1,313 | 2.07% | 99.35% |
| 2010 | 68,818 | 4,442,275,247 | 64,551 | 145,769,997 (4) | 2,118 | 3.28% | 97.14% |
| 2011 | 69,375 | 4,363,213,281 | 62,893 | 157,610,000 | 2,272 | 3.61% | 97.69% |
| 2012 | 69,774 | 4,254,632,541 | 60,977 | 151,575,000 | 2,172 | 3.56% | 98.11% |
| 2013 | 68,492 | 4,296,495,174 (5) | 62,730 | 145,440,000 | 2,123 | 3.39% | 97.58% (6) |
| 2014 | 71,395 | 4,557,927,587 (7) | 63,841 | 137,655,000 (8) | 1,928 (8) | 3.02% (8) | (9) |

(1) Estimates provided by the City.
(2) Includes self-supporting debt. See "TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT."
(3) As of June 30, 2012 for each respective year's levy.
(4) The increase in general obligation debt between 2009 and 2010 resulted from 3 separate issuances of debt by the City in fiscal year 2010.
(5) Value includes $260,947,469 in assessed valuation attributable to three separate tax increment reinvestment zones (the "Zones"). Pursuant to the various agreements between the City and the Zones, 100% of the tax revenues generated from assessed valuation attributable to the Zones are used for Zone projects and are not available to make debt service payments on the Bonds.
(6) Collections as of May 31, 2013.
(7) Preliminary indication of the value to be certified as of January 1, 2013 by the Fort Bend Central and Harris County Appraisal Districts. Such value is subject to review and downward adjustment prior to certification. No tax will be levied on such preliminary value until it has been certified by the Appraisal Districts.
(8) Includes the Bonds and excludes the Refunded Obligations.
(9) In the process of collections.

## GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

| | Fiscal Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Beginning Balance | $ 9,065,725 | $ 8,357,438 | $ 7,642,014 | $ 9,330,123 | $ 10,113,338 |
| Total Revenue | 28,868,775 | 29,047,287 | 30,638,129 | 30,614,911 | 29,011,388 |
| Total Expenditures | 30,680,260 | 30,090,575 | 31,011,567 | 32,825,607 | 30,166,199 |
| Other Financing Sources (Uses) | 1,161,004 | 1,751,575 | 1,088,862 | 522,588 | 371,596 |
| Ending Balance | $ 8,415,244 | $ 9,065,725 | $ 8,357,438 | $ 7,642,015 | $ 9,330,123 |

For additional information regarding the City, please contact:

Wesley J. Vela, CPA
Finance Director
City of Missouri City
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Missouri City, Texas 77489
Phone: (281) 261-4293
Fax: (281) 208-5600

or

Joe Morrow
Senior Vice President
First Southwest Company
700 Milam Street
Suite 500
Houston, Texas 77002
Phone: (713) 654-8690
Fax: (713) 651-9850

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

| City Council | Position | Term Expires (May) |
|---|---|---|
| Allen Owen | Mayor | 2014 |
| Jerry Wyatt | Council, At Large Position 1 | 2014 |
| Danny Nguyen | Council, At Large Position 2 | 2014 |
| Yolanda Ford | Council, District A | 2015 |
| Don Smith | Council, District B | 2015 |
| Robin Elackatt | Council, District C | 2015 |
| Floyd Emery | Council, District D | 2015 |

### SELECTED ADMINISTRATIVE STAFF

| Name | Position | Year Employed |
|---|---|---|
| Edward Broussard | City Manager (1) | 2012 |
| Wesley J. Vela | Director of Finance (2) | 2003 |
| Maria Gonzalez | City Secretary | 2011 |
| Caroline Kelley | City Attorney | 2007 |

(1) Mr. Broussard has 18 years experience in public service.
(2) Mr. Vela has 32 years experience in public service.

### CONSULTANTS AND ADVISORS

Auditors ........ Whitley Penn, LLP
Houston, Texas

Bond Counsel ........ Bracewell & Giuliani LLP
Houston, Texas

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

**OFFICIAL STATEMENT**

**RELATING TO**

**$8,730,000**
**CITY OF MISSOURI CITY, TEXAS**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013**

## INTRODUCTION

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information regarding the issuance of the $8,730,000 City of Missouri City, Texas General Obligation Refunding Bonds (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the “Bond Ordinance”) authorizing the issuance of the Bonds, except as otherwise indicated herein. In the Bond Ordinance, the City Council (the “City Council”) of the City of Missouri City, Texas (the “City”) delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who has approved and executed a “Pricing Certificate” completing the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly herein referred to as the “Ordinance”).

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

### DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State and the City's Home Rule Charter. The City was incorporated in 1956, and first adopted its Home Rule Charter in 1974. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Council members. The term of office is two years with the terms of the Mayor and two of the Councilmembers’ terms expiring in even-numbered years while four council members from single-member districts are elected every two years in odd number years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are public safety (police and fire protection), streets, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 67,358, while the City estimates the 2013 population to be 68,492. The City covers approximately 30.4 square miles.

## PLAN OF FINANCING

### PURPOSE

The Bonds are being issued (i) to refund certain obligations of the City described in Schedule I to this Official Statement (the “Refunded Obligations”) and (ii) to pay certain costs incurred in connection with the issuance of the Bonds and the refunding of the Refunded Obligations.

### SOURCES AND USE OF PROCEEDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

| | |
|---|---|
| **Sources of Funds** | |
| Par Amount | $ 8,730,000.00 |
| Net Premium | 456,837.45 |
| Accrued Interest | 16,354.17 |
| Total Sources | $ 9,203,191.62 |
| | |
| **Uses of Funds** | |
| Deposit to the Escrow Fund | $ 9,023,650.70 |
| Deposit to I&S Fund | 16,354.17 |
| Underwriter's Discount | 61,147.40 |
| Costs of Issuance | 102,039.35 |
| Total Uses | $ 9,203,191.62 |

### REFUNDED OBLIGATIONS

The principal of and interest due on the Refunded Obligations are to be paid on the redemption date of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and Wells Fargo Bank, N.A., Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds and other available moneys of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorizes securities including direct noncallable obligations of the United States and noncallable obligations of an agency or instrumentality of the United States rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and guaranteed by the full faith and credit of the United States of America (the “Federal Securities”) maturing in time to make such payments, and the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Grant Thornton LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds (see "OTHER INFORMATION - VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have made firm banking arrangements and effected the defeasance of all of the Refunded Obligations in accordance of the law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Grant Thornton LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed outstanding obligations of the City.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund are insufficient to make such payment.

## THE BONDS

### DESCRIPTION OF THE BONDS

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

### AUTHORITY FOR ISSUANCE

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended, and the Ordinance.

### SECURITY AND SOURCE OF PAYMENT FOR THE BONDS

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

### TAX RATE LIMITATION

Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of $2.50 per $100 taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all general Bond debt service, as calculated at the time of issuance.

**OPTIONAL REDEMPTION**

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 15, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on June 15, 2021 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) will determine by lot or other random method the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**NOTICE OF REDEMPTION**

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

**DEFEASANCE**

The Ordinance provides that the City may discharge its obligations to the registered owners of any or all of the Bonds in any manner now or hereafter permitted by law. Under current Texas law, such discharge may be accomplished either: (i) by depositing with the Paying Agent/Registrar or other lawfully authorized entity a sum of money equal to the principal of and all interest to accrue on such Bonds to maturity or redemption and/or (ii) by depositing with the Paying Agent/Registrar or other lawfully authorized entity amounts sufficient, together with the investments earnings thereon, to provide for the payment and/or redemption of such Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a district, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, as applicable, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent or (iii) any combination of (i) and (ii) above. The foregoing obligations may be in book-entry form, and shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the obligations, as the case may be. If any of the Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for the payment to the registered owners of such Bonds at the date of maturity or prior redemption of the full amount to which such owner would be entitled and for giving notice of redemption as provided in the Ordinance.

Upon such deposit as described above, such Bonds shall no longer be considered to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of Bonds have been made as described above, all rights of the City to initiate proceedings to call such Bonds for redemption or take any other action amending the terms of such Bonds are extinguished; provided, however, that the right to call such 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 such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

**BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City 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 Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.*

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM**

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE BONDS - TRANSFER, EXCHANGE AND REGISTRATION" below.

**PAYING AGENT/REGISTRAR**

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

**TRANSFER, EXCHANGE AND REGISTRATION**

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

**RECORD DATE FOR INTEREST PAYMENT**

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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

**OWNERS' REMEDIES**

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond holders upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners of the Bonds, respectively, would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as they become due or perform other material terms and covenants contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders 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 a creditor's rights 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. In a Chapter 9 proceeding, the City could propose, and the court could order, a plan that changes payment terms on the Bonds without the consent of the owners of the affected Bonds. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

## TAX INFORMATION

### AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Fort Bend Central Appraisal District and the Harris County Appraisal District (the "Appraisal Districts"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal Districts are required under the Property Tax Code to appraise all property within the Appraisal Districts on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal Districts is subject to review by an Appraisal Review Boards, consisting of three members appointed by the Board of Directors of the respective Appraisal Districts. The Appraisal Districts are required to review the value of property within the Appraisal Districts at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Boards.

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000.

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. State law mandates a complete exemption for the residential homestead of disabled veterans determined to be 100% disabled by the U.S. Department of Veterans Affairs. Further, the surviving spouse of a disabled veteran entitled to an exemption for the full value of the veteran’s residence homestead is also entitled such exemption on the same property to which the disabled veteran’s exemption applied.

Effective January 1, 2004, under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

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

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

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

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

### EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

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

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

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

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

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

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

### PROPERTY ASSESSMENT AND TAX PAYMENT

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

#### PENALTIES AND INTEREST

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

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 15% attorney's collection fee is added to the total tax penalty and interest charge. An individual is entitled to defer collection of a tax, abate a suit to collect a delinquent tax, or abate a suit to foreclose a tax lien if the individual is 65 years of age or older or is disabled and the tax is imposed against the individual's residence homestead. Interest on such unpaid taxes accrues at 8% per annum. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In addition to the automatic stay, a bankruptcy court could approve a plan which allows the debtor to make installment payments of delinquent taxes for up to six years and a bankruptcy court may reduce the amount of any taxes assessed against the debtor, including taxes that have already been paid. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

#### MUNICIPAL SALES TAX

The City has adopted the provisions of Property Tax Code § 321.001 et seq., which grants the City the power to impose and levy a one percent (1%) Local Sales and Use Tax within the City. The proceeds of such tax are credited to the General Fund and are not pledged to payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas (the "Comptroller"), who monthly remits the proceeds of the tax, after deduction of a two percent (2%) service fee, to the City.

The Property Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales and use tax for the purpose of reducing its ad valorem property taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales and use tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, State law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues. See "TABLE 13 – MUNICIPAL SALES TAX HISTORY" herein.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the state sales and use tax rate of 6¼%).

The City has also approved the imposition of an additional sales and use tax of one percent (1%) for the Metropolitan Transit Authority of Harris County, Texas ("METRO"). The sales tax for METRO is collected solely for the benefit of mass transit in the area. See "TABLE 13 – MUNICIPAL SALES TAX HISTORY" herein.

#### CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $15,000; disabled persons are granted an exemption of $10,000 and disabled veterans are also granted an exemption between $5,000 and $12,000. State law mandates a complete exemption for the residential homestead of disabled veterans (and the surviving spouse of such disabled veterans) determined to be 100% disabled by the U.S. Department of Veterans Affairs.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; the City grants a minimum exemption of $5,000.

See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for a listing of the amounts of the exemptions described above.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The City does tax nonbusiness personal property; and the County collects taxes for the City.

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

The City does not tax freeport property.

The City does not grant a "goods-in-transit" exemption.

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

The City has adopted a tax abatement policy.

### TAX ABATEMENT POLICY

The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City currently has no abatement agreements in effect. The value of property subject to abatement is shown in Table 1.

### TAX INCREMENT FINANCING ZONE

In June 2000, the City Council approved the creation of a Development Authority for the City that is responsible for management of all Public Improvement Districts and Tax Increment Reinvestment Zones created by the City. One zone was formed to develop an area that had long been noted for substandard housing and a lack of public infrastructure. Another zone was formed so that drainage problems could be handled on a regional basis. The third zone was created so the defined area would develop in a reasonable period of time. Approximately $260,947,469 of the 2013 assessed valuation of the City is subject to agreements between the tax increment reinvestment zones and the City, and tax revenues generated on such assessed valuation are not available to make debt service payments on the Bonds.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL BOND DEBT**

| | | |
|---|---|---|
| 2012/2013 Market Valuation Established by Fort Bend Central Appraisal District and the Harris County Appraisal District (Valuation as of January 1, 2012) (excluding totally exempt property) | | $4,506,188,653 |
| Less Exemptions/Reductions at 100% Market Value: | | |
| Over 65 | $ 51,938,402 | |
| Disabled or Deceased Veterans / Disabled People | 22,264,136 | |
| Productivity Loss | 74,564,386 | |
| Auto Lease Vehicles | 16,345,437 | |
| Abatement | 9,931,430 | |
| Prorated Exempt Property | 51,951 | |
| House Bill 366 | 2,620 | |
| Other | 1,636 | |
| Homestead Cap | 25,820,777 | |
| Pollution Control | 72,460 | |
| Freeport | 8,700,244 | $ 209,693,479 |
| 2012/2013 Taxable Assessed Valuation | | $ 4,296,495,174 (1) |
| General Obligation Debt Payable from Ad Valorem Taxes (as of July 1, 2013) | | |
| Outstanding General Obligation Bonds(2) | $ 56,880,000 | |
| Outstanding Tax Notes | 1,325,000 | |
| Outstanding Certificates of Obligation(2) | 78,590,000 | |
| Plus: The Bonds | 8,730,000 | |
| Total General Obligation Debt Payable from Ad Valorem Taxes | | $ 145,525,000 |
| Less: Self-Supporting Debt(3) | | $ 82,779,105 |
| Less: Interest and Sinking Fund as of May 31, 2013(4) | | 12,356,502 |
| Net General Obligation Debt Payable from Ad Valorem Taxes | | $ 50,389,393 |
| Ratio of Net General Obligation Tax Debt to Taxable Assessed Valuation | | 1.17% |

2013 Estimated Population - 68,492

Per Capita Taxable Assessed Valuation - $62,730

Per Capita General Obligation Debt Payable from Ad Valorem Taxes - $2,125

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(1) Includes $260,947,469 in assessed valuation attributable to three separate tax increment reinvestment zones (the "Zones"). Pursuant to various agreements between the City and the Zones, 100% of the tax revenues generated from assessed valuation attributable to the Zones are used for Zone projects and are not available to make debt service payments on the Bonds.

(2) Excludes the Refunded Obligations.

(3) See "DEBT INFORMATION - ENTERPRISE AND COMPONENT UNIT REVENUE USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT."

(4) Unaudited. Provided by the City.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

| Category | 2013 Amount | 2013 % of Total | 2012 Amount | 2012 % of Total | 2011 Amount | 2011 % of Total |
|---|---|---|---|---|---|---|
| | Taxable Appraised Vaue for Fiscal Year Ended | | | | | |
| Real, Residential, Single-Family | $ 3,410,831,647 | 75.69% | $ 3,379,411,841 | 76.25% | $ 3,507,387,441 | 77.11% |
| Real, Residential, Multi-Family | 22,251,609 | 0.49% | 21,661,632 | 0.49% | 21,154,243 | 0.47% |
| Real, Vacant Lots/Tracts | 137,939,879 | 3.06% | 142,085,533 | 3.21% | 147,363,693 | 3.24% |
| Real, Farm and Ranch Improvements | 1,868,630 | 0.04% | 1,894,400 | 0.04% | 2,217,737 | 0.05% |
| Real, Commercial, Industrial & Personal | 538,675,740 | 11.95% | 508,545,414 | 11.47% | 496,198,593 | 10.91% |
| Real Acreage (Land Only) | 88,010,438 | 1.95% | 88,285,368 | 1.99% | 94,353,095 | 2.07% |
| Real, Oil, Gas & Mineral Reserves | 20,459,900 | 0.45% | 19,154,310 | 0.43% | 13,942,000 | 0.31% |
| Real & Intangible Personal, Utilities | 62,557,053 | 1.39% | 58,983,779 | 1.33% | 59,509,701 | 1.31% |
| Tangible Personal Business | 194,225,207 | 4.31% | 179,563,410 | 4.05% | 169,020,264 | 3.72% |
| Tangible Personal, Other | 217,630 | 0.00% | 651,485 | 0.01% | 336,919 | 0.01% |
| Real Inventory | 29,099,370 | 0.65% | 31,708,527 | 0.72% | 37,276,393 | 0.82% |
| Special Inventory | 51,550 | 0.00% | 26,490 | 0.00% | 12,580 | 0.00% |
| Total Appraised Value Before Exemptions | $ 4,506,188,653 (1) | 100.00% | $ 4,431,972,189 (1) | 100.00% | $ 4,548,772,659 (1) | 100.00% |
| Less: Total Exemptions/Reductions | 209,693,479 | | 177,339,648 | | 185,559,378 | |
| Taxable Assessed Value | $ 4,296,495,174 | | $ 4,254,632,541 | | $ 4,363,213,281 | |

| Category | 2010 Amount | 2010 % of Total | 2009 Amount | 2009 % of Total |
|---|---|---|---|---|
| | Taxable Appraised Value for Fiscal Year Ended | | | |
| Real, Residential, Single-Family | $ 3,562,394,510 | 77.05% | $ 3,389,468,867 | 76.10% |
| Real, Residential, Multi-Family | 20,585,460 | 0.45% | 20,926,240 | 0.47% |
| Real, Vacant Lots/Tracts | 162,760,629 | 3.52% | 161,572,620 | 3.63% |
| Real, Farm and Ranch Improvements | 2,910,390 | 0.06% | 6,103,750 | 0.14% |
| Real, Commercial, Industrial & Personal | 499,030,604 | 10.79% | 513,239,220 | 11.52% |
| Real Acreage (Land Only) | 91,277,484 | 1.97% | 75,217,040 | 1.69% |
| Real & Intangible Personal, Utilities | 61,351,105 | 1.33% | 67,591,212 | 1.52% |
| Tangible Personal Business | 155,040,764 | 3.35% | 129,256,543 | 2.90% |
| Tangible Personal, Other | 329,953 | 0.01% | 273,820 | 0.01% |
| Real Inventory | 55,695,714 | 1.20% | 83,122,400 | 1.87% |
| Special Inventory | 11,924,130 | 0.26% | 7,435,990 | 0.17% |
| Total Appraised Value Before Exemptions | $ 4,623,300,743 (1) | 100.00% | $ 4,454,207,702 (1) | 100.00% |
| Less: Total Exemptions/Reductions | 181,025,496 | | 129,509,234 | |
| Taxable Assessed Value | $ 4,442,275,247 | | $ 4,324,698,468 | |

(1) Excludes totally exempt property.

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

**TABLE 3 - VALUATION AND GENERAL BOND DEBT HISTORY**

| Fiscal Year Ended 6/30 | Estimated Population[(1)] | Taxable Assessed Valuation[(2)] | Taxable Assessed Valuation Per Capita | G.O. Tax Debt Outstanding at End of Year[(3)] | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | G.O. Tax Debt Per Capita |
|---|---|---|---|---|---|---|
| 2009 | 68,047 | $ 4,324,698,468 | $ 63,555 | $ 89,319,997 | 2.07% | $ 1,313 |
| 2010 | 68,818 | 4,442,275,247 | 64,551 | 145,769,997 (4) | 3.28% | 2,118 |
| 2011 | 69,375 | 4,363,213,281 | 62,893 | 157,610,000 | 3.61% | 2,272 |
| 2012 | 69,774 | 4,254,632,541 | 60,977 | 151,575,000 | 3.56% | 2,172 |
| 2013 | 68,492 | 4,296,495,174 (5) | 62,730 | 145,440,000 | 3.39% | 2,123 |
| 2014 | 71,395 | 4,557,927,587 (6) | 63,841 | 137,655,000 (7) | 3.02% (7) | 1,928 (7) |

(1) Estimate provided by the City.
(2) As reported by Appraisal Districts, subject to change throughout the year.
(3) Includes self-supporting debt. See "TABLE 10 – COMPUTATION OF SELF-SUPPORTING DEBT."
(4) The increase in general obligation debt between 2009 and 2010 resulted from 3 separate issuances of debt by the City in fiscal year 2010.
(5) Value includes $260,947,469 in assessed valuation attributable to three separate tax increment reinvestment zones (the "Zones"). Pursuant to the various agreements between the City and the Zones, 100% of the tax revenues generated from assessed valuation attributable to the Zones are used for Zone projects and are not available to make debt service payments on the Bonds.
(6) Preliminary indication of the value to be certified as of January 1, 2013 by the Fort Bend Central and Harris County Appraisal Districts. Such value is subject to review and downward adjustment prior to certification. No tax will be levied on such preliminary value until it has been certified by the Appraisal Districts.
(7) Includes the Bonds and excludes the Refunded Obligations.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

| Year Ended 6/30 | Tax Rate | General Fund | and Sinking Fund | Tax Levy | % Current Collections[(1)] | % Total Collections[(2)] |
|---|---|---|---|---|---|---|
| 2008 | $ 0.49926 | $ 0.34318 | $ 0.15608 | $ 20,596,110 | 96.05% | 99.52% |
| 2009 | 0.51724 | 0.34956 | 0.16768 | 22,835,266 | 96.68% | 99.35% |
| 2010 | 0.52840 | 0.34686 | 0.18154 | 23,507,100 | 97.14% | 97.14% |
| 2011 | 0.52840 | 0.34773 | 0.18067 | 23,145,280 | 97.69% | 97.69% |
| 2012 | 0.52840 | 0.34773 | 0.18067 | 22,491,150 | 98.11% | 98.11% |
| 2013 | 0.54480 | 0.35857 | 0.18623 | 22,624,098 | 97.58% (3) | 97.58% (3) |

(1) Collected within the Fiscal Year of the levy.
(2) As of June 30, 2012 for each respective year's levy.
(3) Collections as of May 31, 2013.

**TABLE 5 - TEN LARGEST TAXPAYERS**

| Name of Taxpayer | Nature of Property | 2012/2013 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| Warren Alloy Valve & Fitting Co. LLC | Distribution Center | $ 36,000,000 | 0.84% |
| Inland American Riverstone Ltd. Partnership | Retail Center | 25,399,860 | 0.59% |
| Centennial Sienna LP | Developer | 23,200,580 | 0.54% |
| Centerpoint Energy Electric | Electric Utility | 21,301,810 | 0.50% |
| Colony Lakes Center Ltd. | Retail Center | 14,530,000 | 0.34% |
| Global Geophysical Services Inc. | Geophysical Data Acquisition | 14,266,710 | 0.33% |
| Wal-Mart Real Estate Business Trust | Retail Store | 14,047,620 | 0.33% |
| Horizon Producing & Operating | Oil & Gas | 13,653,830 | 0.32% |
| Kroger Texas LP | Grocery Store | 13,046,500 | 0.30% |
| Target Corporation | Retail Store | 12,177,250 | 0.28% |
| | | $ 187,624,160 | 4.37% |

**GENERAL OBLIGATION DEBT LIMITATION**

A maximum ad valorem tax rate of $2.50 per $100 of taxable assessed valuation is imposed on the City under current State law and the City's Home Rule Charter (see "THE BONDS - TAX RATE LIMITATION").

**TABLE 6 - TAX ADEQUACY**

| | | | |
|---|---|---|---|
| 2014 Principal and Interest Requirements | $ | 8,243,888 | (1) |
| $0.1979 Tax Rate at 97% Collection Produces | $ | 8,247,681 | |
| Maximum Principal and Interest Requirements (2014) | $ | 8,243,888 | (1) |
| $0.1979 Tax Rate at 97% Collection Produces | $ | 8,247,681 | |
| Average Principal and Interest Requirements (2014-2018) | $ | 7,685,019 | (1) |
| $0.1844 Tax Rate at 97% Collection Produces | $ | 7,685,055 | |
| Average Principal and Interest Requirements (2019-2024) | $ | 7,083,603 | (1) |
| $0.1700 Tax Rate at 97% Collection Produces | $ | 7,084,921 | |
| Average Principal and Interest Requirements (2025-2028) | $ | 5,028,503 | (1) |
| $0.1207 Tax Rate at 97% Collection Produces | $ | 5,030,294 | |
| Average Principal and Interest Requirements (2029-2038) | $ | 256,383 | (1) |
| $0.0062 Tax Rate at 97% Collection Produces | $ | 258,391 | |

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

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

| Governmental Entity | Debt as of July 1, 2013 | Overlapping Percentage | Overlapping Amount |
|---|---|---|---|
| First Colony LID | $ 40,000 | 49.37% | $ 19,748 |
| First Colony MUD No. 9 | 17,615,000 | 100.00% | 17,615,000 |
| Fort Bend County | 460,650,000 | 8.30% | 38,233,950 |
| Fort Bend County MUD No. 26 | 13,800,000 | 100.00% | 13,800,000 |
| Fort Bend County MUD No. 42 | 8,710,000 | 97.35% | 8,479,185 |
| Fort Bend County MUD No. 46 | 17,545,000 | 100.00% | 17,545,000 |
| Fort Bend County MUD No. 47 | 4,100,000 | 100.00% | 4,100,000 |
| Fort Bend County MUD No. 48 | 12,105,000 | 100.00% | 12,105,000 |
| Fort Bend County MUD No. 49 | 2,300,000 | 100.00% | 2,300,000 |
| Fort Bend County MUD No. 115 | 13,135,000 | 100.00% | 13,135,000 |
| Fort Bend County WC&ID No. 2 | 64,845,000 | 8.56% | 5,550,732 |
| Fort Bend Independent School District | 896,309,425 | 16.27% | 145,829,543 |
| Harris County | 1,773,252,190 | 0.06% | 1,063,951 |
| Harris County Department of Education | 7,605,000 | 0.06% | 4,563 |
| Harris County Flood Control District | 96,470,000 | 0.06% | 57,882 |
| Harris County MUD No. 122 | 2,455,000 | 100.00% | 2,455,000 |
| Harris County WC&ID (Fondren Road) | 2,490,000 | 100.00% | 2,490,000 |
| Houston Community College System | 676,095,000 | 3.32% | 22,446,354 |
| Houston Independent School District | 2,365,368,577 | 0.15% | 3,548,053 |
| Palmer Plantation MUD #1 | 3,765,000 | 100.00% | 3,765,000 |
| Palmer Plantation MUD #2 | 8,210,000 | 100.00% | 8,210,000 |
| Port of Houston Authority | 731,969,397 | 0.06% | 439,182 |
| Sienna Plantation LID | 82,020,000 | 6.35% | 5,208,270 |
| Sienna Plantation Management District | 18,555,000 | 100.00% | 18,555,000 |
| Sienna Plantation MUD #10 | 42,260,000 | 0.22% | 92,972 |
| Sienna Plantation MUD #12 | 11,570,000 | 32.77% | 3,791,489 |
| Southwest Harris County MUD No. 1 | 2,195,000 | 100.00% | 2,195,000 |
| Total Overlapping Debt | | | $ 353,035,874 |
| The City (1) | | | 145,525,000 (2) |
| Total Direct and Overlapping Debt | | | $ 498,560,874 |
| Population | | | 68,492 |
| Per Capita Total Direct and Overlapping Debt | | | $ 7,279 |
| Ratio of Total Direct and Overlapping Debt to Taxable Assessed Valuation | | | 11.60% |

Source: Texas Municipal Reports.

(1) Includes self supporting debt.

(2) Includes the Bonds and excludes the Refunded Obligations.

## DEBT INFORMATION

### TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

| Year Ending 6/30 | Outstanding Debt Total | Less: Refunded Debt Service | The Bonds Principal | The Bonds Interest | The Bonds Total | Less: Self-Supporting Debt Service[1] | Total Debt Service Requirements | % of Principal Retired |
|---|---|---|---|---|---|---|---|---|
| 2013 | $ 13,933,148 | | | | | $ 6,130,305 | $ 7,802,843 | |
| 2014 | 13,979,712 | $ 385,665 | $ 70,000 | $ 256,760 | $ 326,760 | 6,062,584 | 8,243,888 | |
| 2015 | 13,197,678 | 385,665 | 35,000 | 292,975 | 327,975 | 5,984,784 | 7,540,869 | |
| 2016 | 13,207,975 | 385,665 | 35,000 | 292,275 | 327,275 | 6,000,443 | 7,534,807 | |
| 2017 | 12,819,277 | 810,665 | 465,000 | 291,575 | 756,575 | 6,013,339 | 7,562,513 | 24.68% |
| 2018 | 12,818,251 | 811,540 | 475,000 | 277,625 | 752,625 | 6,027,861 | 7,543,015 | |
| 2019 | 11,703,512 | 806,070 | 485,000 | 263,375 | 748,375 | 6,042,308 | 6,409,579 | |
| 2020 | 11,711,311 | 1,104,450 | 800,000 | 248,825 | 1,048,825 | 5,809,031 | 6,951,105 | |
| 2021 | 11,705,013 | 1,434,410 | 1,155,000 | 224,825 | 1,379,825 | 5,805,956 | 7,278,882 | |
| 2022 | 11,715,663 | 1,449,073 | 1,200,000 | 190,175 | 1,390,175 | 5,813,253 | 7,292,585 | 48.91% |
| 2023 | 11,700,165 | 1,454,738 | 1,245,000 | 154,175 | 1,399,175 | 5,807,440 | 7,291,900 | |
| 2024 | 11,685,289 | 1,452,575 | 1,285,000 | 110,600 | 1,395,600 | 5,803,321 | 7,277,567 | |
| 2025 | 10,969,689 | 852,170 | 735,000 | 59,200 | 794,200 | 5,698,814 | 6,065,075 | |
| 2026 | 10,933,063 | 834,000 | 745,000 | 29,800 | 774,800 | 5,697,408 | 6,010,455 | |
| 2027 | 10,101,527 | - | - | - | - | 5,703,459 | 4,398,067 | 75.68% |
| 2028 | 9,334,423 | - | - | - | - | 5,694,006 | 3,640,416 | |
| 2029 | 6,666,788 | - | - | - | - | 5,319,331 | 1,347,456 | |
| 2030 | 5,783,944 | - | - | - | - | 5,201,356 | 582,588 | |
| 2031 | 4,634,200 | - | - | - | - | 4,072,075 | 562,125 | |
| 2032 | 4,139,663 | - | - | - | - | 4,068,000 | 71,663 | 91.67% |
| 2033 | 4,066,513 | - | - | - | - | 4,066,513 | - | |
| 2034 | 4,066,369 | - | - | - | - | 4,066,369 | - | |
| 2035 | 4,062,819 | - | - | - | - | 4,062,819 | - | |
| 2036 | 750,575 | - | - | - | - | 750,575 | - | |
| 2037 | 699,594 | - | - | - | - | 699,594 | - | |
| 2038 | 644,331 | - | - | - | - | 644,331 | - | 100.00% |
| | $227,030,489 | $ 12,166,685 | $ 8,730,000 | $ 2,692,185 | $ 11,422,185 | $127,045,275 | $111,407,400 | |

(1) See "DEBT INFORMATION - ENTERPRISE AND COMPONENT UNIT REVENUE USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "TABLE 10 – COMPUTATION OF SELF-SUPPOTING DEBT SERVICE."

### TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

| | | |
|---|---|---|
| Tax Supported Net Debt Service Requirements, Fiscal Year Ending June 30, 2014 | | $ 8,243,888 [1] |
| Interest and Sinking Fund, May 31, 2013[2] | $ 12,356,502 | |
| Interest and Sinking Fund Tax Levy @ 97% Collection | 7,761,322 | |
| Transfer from Utility Fund | 326,160 | |
| Estimated Investment Income | 135,000 | 20,578,984 |
| Estimated Balance, June 30, 2014 | | $ 12,335,096 |

(1) Includes the Bonds, and excludes the Refunded Obligations and self-supporting debt.
(2) Unaudited. Provided by the City.

**ENTERPRISE AND COMPONENT UNIT REVENUE USED TO PAY GENERAL OBLIGATION DEBT SERVICE**

The City has certain outstanding general obligation bonds of which some of the proceeds were used for projects that generate revenue for the subsequent repayment. The debt from these bonds is currently being paid in full or in part from such revenue and is listed below:

| Issue | Percent Attributed to Self-Supporting Revenue | Revenue Source Fund | Due in 2014 Fiscal Year |
|---|---|---|---|
| Combination Tax and Revenue Certificates of Obligation, Series 2004 | 100.00% | WWSS Utilities | $ 116,374 |
| Combination Tax and Revenue Certificates of Obligation, Series 2005 | 100.00% | WWSS Utilities | 158,278 (1) |
| Combination Tax and Revenue Certificates of Obligation, Series 2008A | 100.00% | WWSS Utilities | 1,135,994 |
| Combination Tax and Revenue Certificates of Obligation, Series 2009A | 100.00% | PID #4 | 387,299 |
| Combination Tax and Revenue Certificates of Obligation, Series 2009B | 100.00% | Surface Water | 3,308,150 |
| Combination Tax and Revenue Certificates of Obligation, Series 2009C | 100.00% | TIRZ #2 | 437,563 |
| Combination Tax and Revenue Certificates of Obligation, Series 2010A | 100.00% | PID #2 | 329,175 |
| Combination Tax and Revenue Certificates of Obligation, Series 2010B | 100.00% | TIRZ #2 | 189,752 |
| | | | $ 6,062,584 |

(1) Portions of the Combination Tax and Revenue Certificates of Obligation, Series 2005 will be refunded by the Bonds. See "Schedule I – SCHEDULE OF REFUNDED OBLIGATIONS."

The debt issues described in this table is general obligation debt for which repayment is provided from revenues of the water and sewer system, ground water reduction and surface water treatment system, payments from Public Improvement District No. 4 ("PID #4") and payments from Tax Increment Reinvestment Zone No. 2 ("TIRZ #2"). It is the City's current policy to provide these payments from such sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments are not made from such sources in the future, the difference will be paid for with ad valorem taxes. As noted in the table above, portions of the Combination Tax and Revenue Certificates of Obligation, Series 2005 (the "Series 2005 Bonds") will be refunded by the Bonds. The City anticipates that portion of debt service on the Bonds attributable to the Series 2005 Bonds will continue to be paid with revenues of the water and sewer system. If such payments are not made from revenues of the water and sewer system in the future, the difference will be paid for with ad valorem taxes.

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT**

| | | |
|---|---|---|
| Budgeted Funds Available for Debt Service from Water and Wastewater Utilities (6/30/13)(1) | $ | 15,118,732 |
| Water and Sewer System General Obligation Bond Requirements (6/30/14) | | 1,410,646 |
| Balance | $ | 13,708,086 |
| Percentage of Water and Sewer System General Obligation Bonds Self-Supporting | | 100.00% |
| | | |
| Budgeted Funds Available for Debt Service from Surface Water Utility Fund (6/30/13)(1) | $ | 5,307,517 |
| Surface Water General Obligation Bond Requirements (6/30/14) | | 3,308,150 |
| Balance | $ | 1,999,367 |
| Percentage of Surface Water General Obligation Bonds Self-Supporting | | 100.00% |
| | | |
| Budgeted Funds Available for Debt Service from TIRZ #2 Fund (6/30/13)(1) | $ | 3,873,173 |
| TIRZ #2 General Obligation Bond Requirements (6/30/14) | | 627,314 |
| Balance | $ | 3,245,859 |
| Percentage of TIRZ #2 General Obligation Bonds Self-Supporting | | 100.00% |
| | | |
| Budgeted Funds Available for Debt Service from PID #4 Fund (6/30/13)(1) | $ | 185,910 |
| PID #4 General Obligation Bond Requirements (6/30/14) | | 716,474 |
| Balance | $ | (530,564) |
| Percentage of PID #4 General Obligation Bonds Self-Supporting | | 25.95% |

(1) Unaudited. Provided by the City.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

| Purpose | Date Authorized | Amount Authorized | Amount Previously Issued | Unissued Balance |
|---|---|---|---|---|
| Drainage Improvements | 9/13/2003 | $ 20,000,000 | $ 5,945,000 | $ 14,055,000 |
| Park and Recreation | 9/13/2003 | 15,550,000 | 15,550,000 | - |
| Public Safety | 9/13/2003 | 8,200,000 | 6,470,000 | 1,730,000 |
| Transportation | 9/13/2003 | 28,110,000 | 15,610,000 | 12,500,000 |
| Public Facilities | 9/13/2003 | 2,110,000 | 2,072,000 | 38,000 |
| Courts | 9/13/2003 | 1,030,000 | 1,030,000 | - |
| Park and Recreation | 11/4/2008 | 17,500,000 | 15,615,000 | 1,885,000 |
| | | $ 92,500,000 | $ 46,677,000 | $ 30,208,000 |

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT**

The City does not anticipate the issuance of additional general obligation debt in the next 12 months.

**OTHER OBLIGATIONS**

The City is also responsible for, on a contingent basis, certain payments in connection with the Fort Bend Parkway Toll Road (the "Parkway"). The City and Fort Bend County (the "County"), have entered into a Joint Construction Agreement whereby the City has agreed to pay the County up to $1,000,000 annually for the four fiscal years after expenditure of all capitalized interest to the extent Net Revenues on the Parkway are insufficient to pay debt service on the Fort Bend County Unlimited Tax and Subordinate Lien Toll Road Revenue Bonds, Series 2003. The capitalized interest was expended in 2006. The City has a separate agreement with developers within Sienna Plantation, a master planned community located within the City, whereby such developers will pay up to $500,000 annually for the City's Bond under the Joint Construction Agreement. No payment has been required to date as a result of the agreement.

**PENSION FUND**

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE ANNUAL FINANCIAL REPORT" - Note # 11.)

**OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits through the Texas Municipal Retirement System, the City has opted to provide eligible retired employees with the following post-employment benefits:

- Eligible retirees may purchase health insurance from the City's healthcare provider at the City's cost to cover current employees
- Eligible retirees may purchase health insurance from the City's healthcare provider at the City's cost to cover current employees for dependents if the dependents were covered at the point of retirement

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. The appropriation for the fiscal year ending June 30, 2012 was $299,068. At June 30, 2012, there were approximately 9 participants eligible to receive such benefits. The appropriation for fiscal year ending June 30, 2013 was $308,000.

The City implemented GASB 45 "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions" for the year ended June 30, 2009. The actuarial study determined that the Annual Required Contribution for Fiscal Year Beginning 2009 would be $279,705 based on the city's Unfunded PAYGO choice. The present value of all benefits expected to be paid to current plan members as of December 31, 2012 is $3,265,249. The actuarial accrued liability, which is the portion of the $3,265,249 attributable to service accrued by members as of December 31, 2012, is $3,265,249.

For more information concerning the City's post-employment benefits, see the financial statements of the City, and the notes thereto.

**TABLE 12 - CHANGES IN NET ASSETS**

| | Fiscal Year Ended June 30 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| ASSETS | | | | | |
| Cash and cash equivalents | $ 36,965,474 | $ 50,417,965 | $ 43,124,096 | $ 18,644,618 | $ 19,309,395 |
| Investments | - | - | - | 46,807,489 | 20,943,823 |
| Receivables | 4,829,099 | 4,133,272 | 4,416,113 | 3,683,585 | 1,877,865 |
| Due from others | - | - | - | - | 2,192,372 |
| Internal balance | 175,048.00 | 30,175 | 12,246 | 355 | 38,888 |
| Inventories | 149,820 | 120,078 | 86,795 | 68,392 | 93,296 |
| Deferred charges | 747,950 | 747,950 | 476,604 | 476,604 | 102,028 |
| Capital assets: | | | | | |
| Land | 11,787,967 | 11,787,967 | 11,715,861 | 10,258,258 | 10,224,368 |
| Right of Way | 2,711,421 | 2,711,421 | 2,711,421 | - | - |
| Buildings | 20,091,208 | 20,277,437 | 19,518,684 | 25,121,711 | 13,118,303 |
| Improvements other than buildings | 23,021,222 | 15,723,007 | 15,001,514 | - | 5,651,268 |
| Machinery and equipment | 5,122,271 | 5,588,451 | 5,757,820 | 5,328,581 | 5,683,106 |
| Infrastructure | 124,228,569 | 99,905,856 | 100,678,107 | 72,842,323 | 72,287,865 |
| Construction in progress | 19,422,382 | 18,954,598 | 6,035,836 | 16,774,624 | 14,567,314 |
| **Total Assets** | $ 249,252,431 | $ 230,398,177 | $ 209,535,097 | $ 200,006,540 | $ 166,089,891 |
| LIABILITIES | | | | | |
| Accounts payable and other current liabilities | $ 5,332,844 | $ 3,531,785 | $ 2,447,064 | $ 6,087,547 | $ 2,601,152 |
| Accrued interest payable | 166,103 | 174,537 | 163,021 | 161,879 | 104,650 |
| Unearned Revenue | - | 17,913 | 16,042 | - | - |
| Noncurrent liabilities: | | | | | |
| Due within one year | 6,439,706 | 6,456,934 | 5,712,134 | 4,602,946 | 3,620,787 |
| Due in more than one year | 100,994,718 | 105,077,003 | 92,779,681 | 84,915,410 | 55,265,957 |
| **Total Liabilities** | $ 112,933,371 | $ 115,258,172 | $ 101,117,942 | $ 95,767,782 | $ 61,592,546 |
| NET ASSETS | | | | | |
| Invested in capital assets, net of related debt | $ 112,072,157 | $ 90,854,187 | $ 83,919,838 | $ 82,306,983 | $ 84,843,990 |
| Restricted for: | | | | | |
| Capital projects | 2,832,016 | 2,316,656 | 2,138,045 | 2,744,991 | 10,147,479 |
| Debt service | 6,824,155 | 6,435,083 | 5,098,257 | 3,769,085 | 3,669,370 |
| Parkland dedication | 939,144 | 1,210,395 | 1,151,998 | 1,174,842 | 1,144,256 |
| Regional wastewater operations | - | - | - | 201,055 | 148,526 |
| Community development | 6,261,304 | 5,440,343 | 6,518,099 | 4,463,669 | 1,261,367 |
| Other | 835,410 | 418,335 | 346,574 | 230,374 | 204,237 |
| Unrestricted | 6,554,874 | 8,465,006 | 9,244,344 | 9,347,761 | 3,078,120 |
| **Total net assets** | $ 136,319,060 | $ 115,140,005 | $ 108,417,155 | $ 104,238,760 | $ 104,497,345 |

Source: City's audited financial statements.

**TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

| | Fiscal Years Ending June 30 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Revenues: | | | | | |
| Taxes | $ 20,385,318 | $ 20,595,636 | $ 20,722,103 | $ 21,575,656 | $ 20,212,006 |
| Licenses and Permits | 1,417,337 | 1,675,038 | 1,441,394 | 1,441,210 | 2,088,559 |
| Intergovernmental | 839,815 | 946,079 | 813,745 | 554,259 | 486,091 |
| Fine and Forfeitures | 1,202,259 | 1,094,903 | 1,167,287 | 1,248,034 | 1,065,439 |
| Franchise Fees | 3,260,490 | 3,230,284 | 3,343,939 | 3,056,069 | 2,875,964 |
| Other Revenue | 1,763,556 | 1,505,347 | 3,149,661 | 2,739,683 | 2,283,329 |
| Total Revenues | $ 28,868,775 | $ 29,047,287 | $ 30,638,129 | $ 30,614,911 | $ 29,011,388 |
| Expenditures: | | | | | |
| General Government | $ 3,822,292 | $ 3,861,503 | $ 4,165,473 | $ 5,463,212 | $ 4,367,650 |
| Finance | 1,665,912 | 1,703,528 | 2,498,124 | 2,344,433 | 2,051,702 |
| Police | 11,187,011 | 10,524,626 | 9,605,738 | 9,608,520 | 9,071,900 |
| Fire | 6,281,297 | 6,275,501 | 6,335,680 | 6,294,528 | 6,496,014 |
| Public Works | 3,832,721 | 3,795,224 | 4,213,970 | 4,352,584 | 3,949,413 |
| Parks and Recreation | 2,188,078 | 2,191,733 | 2,353,453 | 2,565,487 | 2,331,497 |
| Planning | 1,637,837 | 1,738,460 | 1,839,129 | 2,196,843 | 1,898,023 |
| Capital Outlay | 65,112 | - | - | - | - |
| Total Expenditures | $ 30,680,260 | $ 30,090,575 | $ 31,011,567 | $ 32,825,607 | $ 30,166,199 |
| Revenues over (under) exp | $ (1,811,485) | $ (1,043,288) | $ (373,438) | $ (2,210,696) | $ (1,154,811) |
| Other Financing Sources/Uses | | | | | |
| Transfer from other funds | $ 1,161,004 | $ 1,908,704 | $ 1,708,299 | $ 985,327 | $ 828,921 |
| Transfers (to) other funds | - | (157,129) | (619,437) | (462,739) | (457,325) |
| Proceeds of long term debt | - | | - | - | - |
| Total Other Sources (Uses) | $ 1,161,004 | $ 1,751,575 | $ 1,088,862 | $ 522,588 | $ 371,596 |
| Revenues and other financing sources over/(under) | $ (650,481) | $ 708,287 | $ 715,424 | $ (1,688,108) | $ (783,215) |
| Fund balances, beginning of year | $ 9,065,725 | $ 8,357,438 | $ 7,642,014 | $ 9,330,123 | $ 10,113,338 |
| Ending Fund Balance | $ 8,415,244 | $ 9,065,725 | $ 8,357,438 | $ 7,642,014 | $ 9,330,123 |

Source: City's audited financial statements.

**TABLE 13 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% local sales and use tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. The City has approved the imposition of an additional sales and use tax of one percent (1%) for the Metropolitan Transit Authority of Harris County, Texas ("METRO"). The sales tax for METRO is collected solely for the benefit of mass transit in the area.

| Fiscal Year Ended | Total Collected[1] | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita[2] |
|---|---|---|---|---|
| 2008 | $ 5,588,511 | 27.13% | $ 0.14 | $ 83 |
| 2009 | 6,126,685 | 26.83% | 0.14 | 90 |
| 2010 | 5,910,971 | 25.15% | 0.13 | 86 |
| 2011 | 5,926,280 | 25.60% | 0.14 | 85 |
| 2012 | 6,249,961 | 27.79% | 0.15 | 90 |
| 2013 | 5,285,282 [3] | 23.36% | 0.13 | 77 |

(1) Represents only the sales taxes remitted to the City based on its 1% levy.
(2) Based on population estimates by the City.
(3) Collections through May 31, 2013.

The sales tax breakdown for the City is as follows:

| | |
|---|---|
| City Sales and Use Tax | 1.00% |
| State Sales and Use Tax | 6.25% |
| METRO Sales and Use Tax | 1.00% |
| Total | 8.25% |

**FINANCIAL POLICIES**

*Basis of Accounting* . . .The financial statements of the City are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The basic financial statements for the City include all activities, organizations and functions for which the City is financially accountable. The City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34.

*General Fund Balance* . . .The City has a policy of maintaining the General Fund Balance at a balance between 15 and 25 percent of estimated revenues to assure adequate reserve for emergencies.

*Debt Service Fund Balance* . . . The Debt Service Fund is used to account for the payment of interest and principal on all general Bond debts of the City. The primary source of revenue for the debt service fund is property taxes.

*Budgetary Procedures* . . .The City begins the budget process at the department level in January of each year. The departments submit budget workbooks back to the Director of Finance where they are compiled and submitted to the City Manager. After review and comment a proposed budget is submitted to City Council. The City Council holds public hearings and adopts a budget prior to June 30 of each year.

**INVESTMENTS**

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

## LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) 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; and (12) 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 this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

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 is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### 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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. 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, the City's 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

### 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 family relationships 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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) 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, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

### TABLE 14 - CURRENT INVESTMENTS

As of March 31, 2013, the City's investable funds were invested in the following categories:

| Investment Description | Percent of Total | Market Value | Book Value |
|---|---|---|---|
| Agency Notes | 56.4864% | $36,431,780 | $40,553,982 |
| LOGIC (1) | 40.0474% | 25,829,207 | 25,829,207 |
| Checking | 3.3303% | 2,147,942 | 2,147,942 |
| Certificates of Deposit | 0.0349% | 22,500 | 22,500 |
| TexPool (1) | 0.1010% | 65,133 | 65,133 |
| Total Investments | 100.00% | $64,496,562 | $68,618,764 |

(1) Government Investment Pool.

## TAX MATTERS

### TAX EXEMPTION

In the opinion of Bracewell & Giuliani LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except as described below in the discussion regarding the adjusted current earnings adjustment for corporations.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the 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 Internal Revenue Service (the "Service"). The City has covenanted in 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 exclusion from gross income of interest on the Bonds 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. Bond Counsel will further rely on the report (the "Report") of Grant Thornton L.L.P., certified public accountants, regarding the mathematical accuracy of certain computations. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations or the Report are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, or REMIC), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

## PURCHASE OF QUALIFIED TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Bonds have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations, including a portion of the Bonds, issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2013, is not expected to exceed $10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during 2013.

Notwithstanding the designation of the Bonds as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

## ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

### COLLATERAL TAX CONSEQUENCES

Prospective purchasers 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 qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the 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 Bonds, received or accrued during the year.

### TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

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

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

### TAX LEGISLATIVE CHANGES

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the 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 Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

### ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB annually via EMMA. The information to be updated includes all quantitative financial information and operating data of the general type included in this Official Statement in Tables 1 through 6 and Tables 8 through 14, and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year.

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

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

#### MATERIAL EVENT NOTICES

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. In addition, the City will 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 (12) 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 Ordinances of a court or governmental authority, or the entry of an Ordinance 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

The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

#### LIMITATIONS AND AMENDMENTS

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

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### COMPLIANCE WITH PRIOR UNDERTAKINGS

The City has complied in all material respects with its continuing disclosure agreements in accordance with the Rule for the last five years except as described in this paragraph. The annual financial information and operating data of the City for fiscal year 2010 and 2012 was not timely filed. The City has subsequently filed the missing information, including a notice of late filing, and has put certain administrative procedures in place to help ensure timely compliance with its annual obligations in the future.

## OTHER INFORMATION

### RATINGS

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

### LITIGATION

The City will furnish to the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

### REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

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

### LEGAL MATTERS

The delivery of the Bonds is subject to the approving opinions of the Attorney General of Texas to the effect that the Bonds are valid and legally binding Bonds of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City and, the approving legal opinions of Bracewell & Giuliani LLP, in substantially the form attached as Appendix C. In connection with the issuance of the Bonds, Bond Counsel has represented only the City. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions the captions and sub-captions "PLAN OF FINANCING" (except for the subsection "Sources and Uses of Proceeds"), "THE BONDS" (except for the subsection "Book-Entry-Only System" and "Owners' Remedies), "TAX MATTERS," "PURCHASE OF QUALIFIED TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUIONS," "ADDITIONAL FEDERLA INCOME TAX CONSIDERATIONS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale," "OTHER INFORMATION - Legal Investments and Eligibility To Secure Public Funds in Texas," and "OTHER INFORMATION - Legal Matters," in the Official Statement and Bond Counsel is of the opinion that the statements and information therein fairly summarizes the procedures and documents referred to therein and is correct as to matters of law. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

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

**AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

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

**FINANCIAL ADVISOR**

First Southwest Company is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. First Southwest Company, in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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.

**VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the government obligations, to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bondswill be excluded from gross income for federal income tax purposes.

The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the City and its representatives. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the ICity and its representatives and has not evaluated or examined the assumptions or information used in the computations.

**UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of $61,147.40. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter, BOSC, Inc., is not a bank and the 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.

### UPDATING OF OFFICIAL STATEMENT

The City will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the City and, to the extent that information comes to its attention, to the other matters described in the Official Statement, until the delivery of the Bonds to the Underwriter. All changes in the affairs of the City and other matters described in the Official Statement subsequent to the delivery of the Bonds to the Underwriter and all information with respect to the resale of the Bonds shall be the responsibility of the Underwriter except as described herein under “CONTINUING DISCLOSURE OF INFORMATION.”

This Official Statement was duly authorized and approved by the City Council, as of the date specified on the first page hereof.

### CONCLUDING STATEMENT

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Information in this Official Statement has been derived by the City from official and other sources and is believed by the City to be accurate and reliable. Information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed.

**Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as or as part of a contract with the original purchasers or subsequent owners of the Bonds.**

*Allen Owen*
Mayor
City of Missouri City, Texas

ATTEST:

*Maria Gonzalez*
City Secretary

**SCHEDULE I**

**SCHEDULE OF REFUNDED OBLIGATIONS**

**Permanent Improvement Bonds, Series 2004**

| Maturity June 15 | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|
| 2017 | 4.500 % | $ 425,000 | 06/15/14 | 100.00 % |
| 2018 | 4.600 | 445,000 | 06/15/14 | 100.00 |
| 2019 | 4.700 | 460,000 | 06/15/14 | 100.00 |
| 2020 | 4.800 | 480,000 | 06/15/14 | 100.00 |
| 2021 | 4.875 | 500,000 | 06/15/14 | 100.00 |
| 2022 | 5.000 | 525,000 | 06/15/14 | 100.00 |
| 2023 | 5.000 | 545,000 | 06/15/14 | 100.00 |
| 2024 | 5.000 | 570,000 | 06/15/14 | 100.00 |
| | | $ 3,950,000 | | |

**Combination Tax & Revenue Certificates of Obligation, Series 2005**

| Maturity June 15 | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|
| 2020 | 4.000 % | $ 300,000 | 06/15/14 | 100.00 % |
| 2021 | 4.050 | 325,000 | 06/15/14 | 100.00 |
| 2022 | 4.100 | 350,000 | 06/15/14 | 100.00 |
| 2023 | 4.150 | 375,000 | 06/15/14 | 100.00 |
| 2024 | 4.250 | 390,000 | 06/15/14 | 100.00 |
| 2025 | 4.250 | 400,000 | 06/15/14 | 100.00 |
| 2026 | 4.250 | 400,000 | 06/15/14 | 100.00 |
| | | $ 2,540,000 | | |

**Permanent Improvement Bonds, Series 2005**

| Maturity June 15 | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|
| 2021 | 4.000 % | $ 320,000 | 06/15/14 | 100.00 % |
| 2022 | 4.100 | 335,000 | 06/15/14 | 100.00 |
| 2023 | 4.100 | 350,000 | 06/15/14 | 100.00 |
| 2024 | 4.200 | 365,000 | 06/15/14 | 100.00 |
| 2025 | 4.200 | 385,000 | 06/15/14 | 100.00 |
| 2026 | 4.250 | 400,000 | 06/15/14 | 100.00 |
| | | $ 2,155,000 | | |

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

**THE CITY**

City of Missouri City, Texas (the "City") is located in northeast Fort Bend County, with a small portion of the City extending into the southwestern section of Harris County, where its boundaries adjoin the City of Houston and is approximately twenty miles southwest of downtown Houston. Beltway 8 intersects with U.S. Highway 90A in the northernmost portion of the City. The intersection of Beltway 8 and U.S. Highway 59 (the "Southwest Freeway") is located just north of the City and provides area residents with ready access to Houston's central business district, as well as other business centers in the metropolitan area. The southern portion of the City is traversed by State Highway 6, one of the principal "outer loops" partially encircling the City of Houston. The City abuts the City of Stafford along its northwestern edge, the City of Houston on its northeastern and eastern edge, the City of Sugar Land on the west, and is surrounded by unincorporated acreage along much of its boundaries.

Except for the small portion of the City that enters Harris County, the City is located within the Fort Bend Independent School District which serves in excess of 68,000 students. The School District currently operates thirty-seven elementary schools, nine of which are located within the City, eleven middle schools, three of which are located within the City, and nine senior high schools, three of which are located within the City. The University of Houston, a large state university, Texas Southern University, a state institution with a large international student body and Rice University, a private school with a national reputation for science and engineering, are about thirty minutes away from the City. Nine area junior colleges have joined to form the Gulf Coast Consortium Partnership. The Houston Community College has a center for computer training, continuing education and professional certification courses, and is planning a larger campus in the City to offer other accredited courses.

The City's economic base is expanding due to continued growth in commercial services and industrial development with a moderate growth in residential activity. For the fiscal year ending June 30, 2012, there were 536 residential units completed and approximately $52,000,000 in commercial value permitted.

In the past ten years there has been a gradual increase in small businesses where existing sites are available. The majority of the commercial activity is in response to the growing residential development. The following is a summary of the building permits issued by the City over the past five fiscal years:

**BUILDING PERMITS**

| Fiscal Year Ended | Commercial | | Residential | | |
|---|---|---|---|---|---|
| 6/30 | Number | Amount | Number | Amount | Grand Total |
| 2008 | 33 | $ 45,701,064 | 324 | $ 63,810,451 | $ 109,511,515 |
| 2009 | 37 | 62,501,850 | 178 | 36,209,624 | 98,711,474 |
| 2010 | 68 | 14,581,250 | 820 | 37,570,158 | 52,151,408 |
| 2011 | 69 | 97,367,287 | 439 | 21,974,504 | 119,341,791 |
| 2012 | 90 | 51,298,493 | 536 | 26,578,540 | 77,877,033 |
| 2013 (1) | 129 | 79,134,705 | 1078 | 68,736,750 | 147,871,455 |

Source: the City.
(1) As of May 31, 2013.

The City encompasses the entirety of 19 utility districts currently in full operation. It is within these districts that the major impetus for City growth is noticed. At present there are seven other districts located within the City which have been created but are not yet in full operation.

In recent years, the City of Houston's outward expansion and the resulting demand for outlying suburban subdivision development has generated an economic impact upon the City. The City adopted its Housing Code in 1987. This Code established minimum standards for the interior and exterior of homes to insure continued compliance, through maintenance and upkeep and fire and health provisions. Enforcement of the Housing Code protects both residents and property values.

There is not a heavy concentration of industry within the City, although there is manufacturing activity in the vicinity. Several major commercial and industrial employers are located within the City, a summary of which follows:

**LEADING EMPLOYERS IN THE CITY**

| Employer Name | Type of Business | Approximate Employment |
|---|---|---|
| Fort Bend Independent School District | School District | 958 |
| Wal-Mart | Retail | 430 |
| HEB | Retail | 347 |
| City of Missouri City | Municipality | 311 |
| Global Geophysical Services | Technology | 230 |
| Super Target | Retail | 170 |
| BIM Controls | Industrial | 160 |
| Lowe's | Retail | 132 |
| Kroger | Retail | 130 |
| Home Depot | Retail | 121 |

Source: Provided by the City.

## ECONOMIC AND GROWTH INDICATORS

**POPULATION HISTORY**

| | 1970 Census | 1980 Census | 1990 Census | 2000 Census | 2010 Census |
|---|---|---|---|---|---|
| Missouri City | 4,136 | 24,423 | 36,176 | 52,913 | 67,358 |
| Fort Bend County | 52,314 | 130,846 | 225,421 | 354,452 | 585,375 |

Source: U.S. Census Bureau.

**LABOR FORCE AND UNEMPLOYMENT RATE FOR FORT BEND COUNTY & MISSOURI CITY**

**Fort Bend County**

| Year | Civilian Labor Force | Total Employment | Unemployment | Rate |
|---|---|---|---|---|
| 2008 | 264,678 | 252,748 | 11,930 | 4.5% |
| 2009 | 272,021 | 252,315 | 19,706 | 7.2% |
| 2010 | 294,933 | 271,898 | 23,035 | 7.8% |
| 2011 | 300,276 | 278,237 | 22,039 | 7.3% |
| 2012 | 310,188 | 291,276 | 18,912 | 6.1% |
| 2013 (1) | 314,453 | 296,376 | 18,077 | 5.7% |

**Missouri City**

| Year | Civilian Labor Force | Total Employment | Unemployment | Rate |
|---|---|---|---|---|
| 2008 | 40,378 | 38,576 | 1,802 | 4.5% |
| 2009 | 40,466 | 37,719 | 2,747 | 6.8% |
| 2010 | 37,102 | 34,019 | 3,083 | 8.3% |
| 2011 | 37,772 | 34,812 | 2,960 | 7.8% |
| 2012 | 38,991 | 36,411 | 2,580 | 6.6% |
| 2013 (1) | 39,284 | 37,048 | 2,235 | 5.7% |

Source: Texas Workforce Commission.
(1) Average through April 2013.

# APPENDIX B

EXCERPTS FROM THE

CITY OF MISSOURI CITY, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2012

The information contained in this Appendix consists of excerpts from the City of Missouri City, Texas Annual Financial Report for the Year Ended June 30, 2012, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Audited Financial Report for further information.

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***REPORT OF INDEPENDENT AUDITORS***

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Missouri City, Texas (the City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 17, and budgetary comparison, required pension system, and other post-employment benefits on pages 70 through 74 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Whitley Penn LLP

Houston, Texas

January 9, 2013

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Missouri City, we offer readers of the City of Missouri City's financial statements this narrative overview and analysis of the financial activities of the City of Missouri City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-xv of this report.

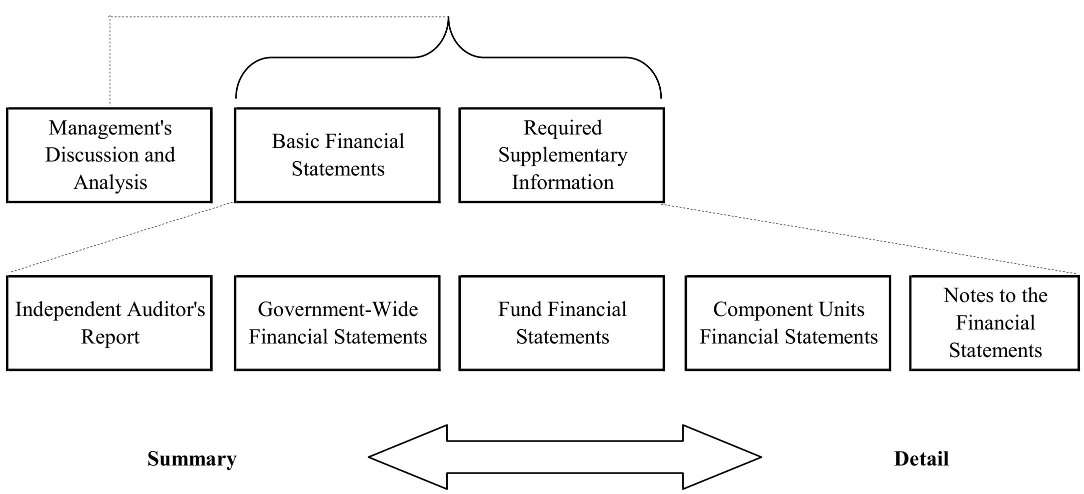
### FINANCIAL HIGHLIGHTS

- The assets of the City of Missouri City exceeded its liabilities at the close of the most recent fiscal year by $172.1 million (net assets). Of this amount, $28.4 million is restricted for special purposes and $12.7 million (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by $27.2 million during the year.
- The City of Missouri City's total expenses were $57.6 million. Program revenues of $49 million reduced the net cost of the City's functions to be financed from the City's general revenues to $8 million.
- The City of Missouri City's total debt decreased by $6.3 million during the current fiscal year. The key factors in this increase were the principal payment of $5.2 million in general obligation bonds and $962,000 in certificates of obligation, and $255,000 in increment revenue bonds. The City issued $1.7 million in tax notes, reduced by $155,000 in principal payments during the year.

### USING THE FINANCIAL SECTION OF THIS COMPREHENSIVE ANNUAL FINANCIAL REPORT

This Comprehensive Annual Financial Report consists of three sections: introductory, financial and statistical. As the following chart shows, the financial section of this report has three components - *management's discussion and analysis* (this section), the *basic financial statements* and *required supplementary information*.

**Components of the Financial Section**



## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Missouri City'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 STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies.

The Statement of Net Assets and the Statement of Activities, which are the government-wide statements, report information about the City as a whole and about its activities in a way that helps answer the question of whether the City is better off this year as compared to last year. These statements include all assets and liabilities and are presented on the accrual basis of accounting. All current year revenues and expenses are taken into account regardless of when the cash is received or paid.

The Statement of Net Assets presents information on all of the City of Missouri City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City of Missouri City is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as 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 future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick 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 other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, finance, police, fire, public works, certain regional wastewater treatment services for local municipal utility districts (non-enterprise), parks and recreation and planning. The business-type activities of the City include regional wastewater treatment services for local municipal utility districts.

The government-wide financial statements include not only the City of Missouri City itself (known as the primary government), but also legally separate component units for which the City of Missouri City is financially accountable. These component units are the Missouri City Development Authority, Tax Increment Reinvestment Zones 1, 2 and 3, and Public Improvement Districts 2, 3 and 4. All of these component units function for all practical purposes as departments of the City, almost entirely benefiting the City, and, therefore, have been included as an integral part ("blended") of the primary government.

## FUND FINANCIAL STATEMENTS

Traditional users of government financial statements will find the fund financial statement presentation more familiar. The focus is now on the City's most significant funds. The fund financial statements provide more information about the City's most significant funds - not the City as a whole.

The City has two types of funds:

**Governmental Funds** - Most of the City's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's major programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship/differences between them.

The City maintains 20 individual governmental funds for financial reporting purposes. 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 fund, the debt service fund, and the bond fund, all of which are considered to be major funds. Data from the other funds is provided in the column labeled "other governmental funds."

**Proprietary Funds** - Proprietary Funds include the City's Enterprise and Internal Service Funds. Three types of enterprise funds are used to report the functions presented as business-type activities in the government-wide financial statements. These are the Water and Wastewater Utility Fund, the Surface Water Utility Fund, and other enterprise funds which include the Missouri City Recreation and Leisure Local Government Corporation (LGC) which is a public, non-profit corporation, the Solid Waste Collections Fund, and the Hotel Occupancy Tax Fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses five internal service funds to account for asset replacement and maintenance activities for the vehicle fleet, management information services and equipment and buildings. All internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Because the services accounted for in the internal service funds benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

## 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 on pages 30-68 of this report.

## OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's General Fund budget compliance, its progress in funding its obligation to provide pension benefits to its employees, and condition and maintenance data regarding certain portions of the City's infrastructure. Required supplementary information (RSI) and notes to RSI can be found on pages 70-74 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $172 million.

**Statement of Net Assets**
The following table reflects the condensed Statement of Net Assets:

**SUMMARY OF STATEMENT OF NET ASSETS**
**As of June 30, 2012 and 2011**
**(amounts expressed in thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Current and other assets | $ 42,867 | $ 55,449 | $ 23,546 | $ 34,040 | $ 66,413 | $ 89,489 |
| Capital assets, net | 206,385 | 174,949 | 71,554 | 58,540 | 277,939 | 233,489 |
| **Total Assets** | 249,252 | 230,398 | 95,100 | 92,580 | 344,352 | 322,978 |
| Long-term Liabilities | 107,434 | 111,534 | 56,892 | 58,465 | 164,326 | 169,999 |
| Other liabilities | 5,499 | 3,724 | 2,413 | 4,331 | 7,912 | 8,055 |
| **Total Liabilities** | 112,933 | 115,258 | 59,305 | 62,796 | 172,238 | 178,054 |
| Net Assets: | | | | | | |
| Invested in capital assets net of debt | 112,072 | 90,854 | 19,054 | 16,338 | 131,127 | 107,192 |
| Restricted | 17,692 | 15,821 | 10,721 | 10,225 | 28,413 | 26,045 |
| Unrestricted | 6,555 | 8,465 | 6,020 | 3,223 | 12,575 | 11,688 |
| **Total Net Assets** | $ 136,319 | $ 115,140 | $ 35,795 | $ 29,785 | $ 172,114 | $ 144,925 |

Nearly 76 percent of the City's net assets reflect its investment in capital assets (e.g., land, intangible assets - right of way, buildings, machinery, equipment and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another major portion of the City's net assets represents Capital project resources (8%) that are subject to external restrictions on how they may be used.

Governmental Net Assets increased by $27 million during the current fiscal year due to an increase of capital grants and contributions of $15.8 million. This was the result of added completed projects during the year.

**Statement of Activities**

The following table provides a summary of the City's changes in net assets:

## CHANGES IN NET ASSETS

**For the Fiscal Years Ended June 30, 2012 and 2011**

**(amounts expressed in thousands)**

| | Governmental Activities | | Business-type Activities | | Total | |
|---|---|---|---|---|---|---|
| **Revenues** | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Program revenues: | | | | | | |
| Charges for Services | $ 5,597 | $ 5,028 | $ 14,912 | $ 12,447 | $ 20,508 | $ 17,475 |
| Operating grants and contributions | 1,977 | 1,423 | 736 | 785 | 2,712 | 2,207 |
| Capital grants and contributions | 24,371 | 8,522 | 1,932 | 252 | 26,302 | 8,774 |
| General revenues: | | | | | | |
| Property taxes | 24,054 | 24,693 | | | 24,054 | 24,693 |
| Sales taxes | 6,250 | 5,926 | | | 6,250 | 5,926 |
| Other | 4,334 | 3,707 | 574 | 410 | 4,908 | 4,117 |
| **Total Revenues** | 66,583 | 49,300 | 18,154 | 13,894 | 84,736 | 63,192 |
| **Expenses** | | | | | | |
| General government | 4,005 | 4,257 | | | 4,005 | 4,257 |
| Finance | 1,728 | 1,812 | | | 1,728 | 1,812 |
| Police | 12,359 | 11,357 | | | 12,359 | 11,357 |
| Fire | 7,123 | 6,535 | | | 7,123 | 6,535 |
| Public works | 9,805 | 9,613 | | | 9,805 | 9,613 |
| Parks and recreation | 3,603 | 3,194 | | | 3,603 | 3,194 |
| Planning | 2,887 | 2,680 | | | 2,887 | 2,680 |
| Utilities and Wastewater | | | 2,700 | 2,707 | 2,700 | 2,707 |
| Surface Water Utility | | | 3,814 | 3,114 | 3,814 | 3,114 |
| Other | | | 5,177 | 4,110 | 5,177 | 4,110 |
| Interest on long-term debt | 4,354 | 4,535 | | | 4,354 | 4,535 |
| **Total Expenses** | 45,864 | 43,985 | 11,692 | 9,930 | 57,556 | 53,915 |
| **Increase in Net Assets Before Transfers** | 20,719 | 5,315 | 6,462 | 3,962 | 27,180 | 9,277 |
| Transfers | 460 | 1,408 | (460) | (1,408) | - | - |
| **Increase in Net Assets** | 21,179 | 6,723 | 6,002 | 2,555 | 27,180 | 9,277 |
| Net assets, Beginning | 115,140 | 108,417 | 29,785 | 27,230 | 144,925 | 135,647 |
| **Net Assets, Ending** | **$ 136,319** | **$ 115,140** | **$ 35,787** | **$ 29,785** | **$ 172,105** | **$ 144,924** |

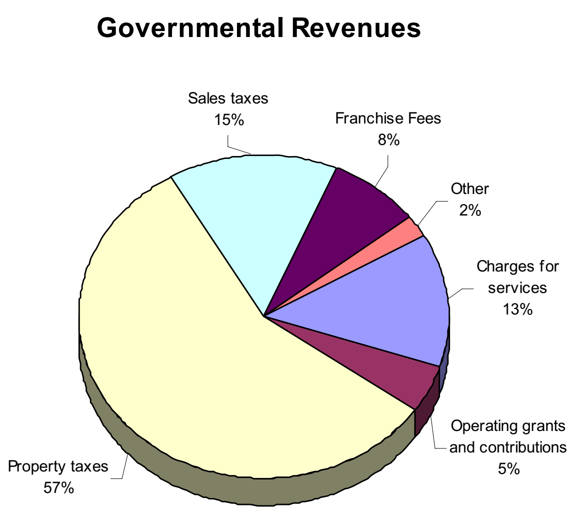
**GOVERNMENTAL ACTIVITIES**

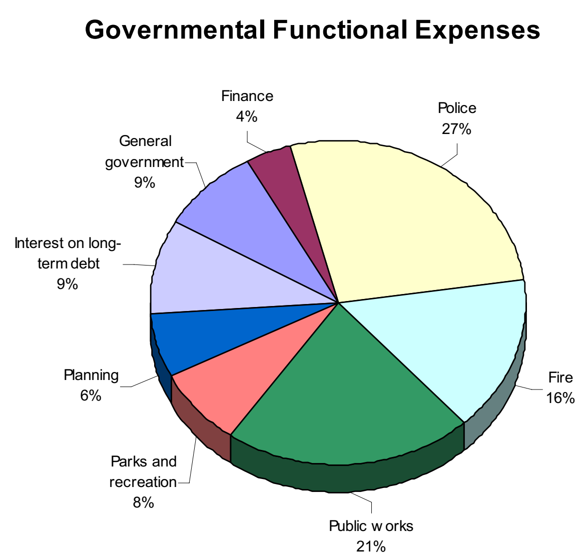
- Property taxes decreased by approximately $639,000 from the prior year primarily due to a reduction in the assessed value on property, of which this amount is expected to reverse in FY2013.

- Total governmental activities revenues increased by $17.3 million mostly as a result of increases in contributed capital ($15.8 million) of non-cash related assets as compared to FY11. Developers and Municipal Utility Districts were the key contributors of these revenues.

- Total governmental activities expenses increased by $1.9 million. Police expenditures increased by $1 million ($650,000 in capital outlays and $300,000 in personnel), fire expenditures increased by $588,000 ($527,000 capital outlays), and parks expenditures increased by $409,000 ($248,000 in commodities & park supplies).

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.




**BUSINESS-TYPE ACTIVITIES**

Business-type activities represent: (1) Water and Wastewater Utilities for the operations of the Northeast Oyster Creek (NEOC) service area and the Mustang Bayou service area, (2) Surface Water Utilities as part of the Groundwater Reduction Plan (GRP), and (3) other Enterprise Funds which include the Missouri City Recreation and Leisure Local Government Corporation, the Solid Waste Collection Fund, and the Hotel Occupancy Tax Fund.

- Business-type Net Assets increased by $6 million during the current fiscal year due to additional revenues in the Surface Water Utility Fund ($1.2 million), other Enterprise Funds ($915,000), and capital grants and contributions ($1.7 million). The completion of utility construction projects and additional customers added during the year allowed for an increase in user fees to cover operating costs.

- Business-type activity revenues increased by $4.3 million as compared to FY2011. The majority of the increase is due to additional utility customers in the Surface Water Utility Fund and the Water and Wastewater Utility Fund. The Solid Waste Collection Fund is in its second year of operations which accounts for solid waste disposal fees ($2.5 million) by MUD's and city residents. In addition, the Missouri City Recreation and Leisure LGC Fund collected $2.7 million in revenues related to the new municipal golf course, an increase of $60,000 over the prior year.

- Total business-type activities increased the City's net assets by $6 million. The majority of the increase was from the Surface Water Utility Fund Net Assets ($3.7 million) and the Water and Wastewater Utility Fund Net Assets ($2.2 million) during the year as a result of added customers during the year.

- Charges for services for enterprise activities increased by $2.5 million due to increased revenues from Surface Water utilities ($1.2 million), and the Solid Waste Collection Fund ($915,000) within the other Enterprise Funds. These revenues have increased significantly as a result of new customers and an increased volume of services.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

**Governmental Funds** - The focus of the City's governmental funds is to provide information of 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 the City's net resources available for spending at the end of the fiscal year.

The City's governmental funds reflect a combined fund balance of $34.6 million at the end of the fiscal year. Of this, $26.2 million is restricted for specific purposes, $585,000 is assigned for other purposes, and $7.8 million is unassigned and available for day-to-day operations of the City.

The general fund is the main operating fund of the City. At the end of the current fiscal year, the total general fund balance was $8.4 million. As a measure of the general fund's liquidity, the City compares total fund balance to total fund expenditures. Total fund balance represents 25.4 percent of total general fund expenditures at the end of Fiscal 2012.

The fund balance of the City's general fund decreased by $650,000 during the current fiscal year. The key factors related to this increase in financial performance are as follows:

- Total general fund revenues decreased by $179,000 as compared to FY2011 due to a decrease in property tax revenues of $534,000. Sales taxes increased by $324,000.

- Total general fund expenditures increased during the current fiscal year by $590,000 as compared to FY2011. The majority of this increase was in police expenditures of $662,000.

- Transfers from other funds decreased by $748,000. The majority of the decrease was due to $955,000 less in transfers from the Surface Water Treatment Fund as a result of reimbursements for general fund expenditures that ended in FY2011.

The debt service fund has a total fund balance of $6.7 million, all of which is restricted for the payment of debt service. The net increase in fund balance during the current fiscal year in the debt service fund was $419,000 million. Overall, revenues exceeded expenditures by $108,000. There were transfers in of $310,000 from various MUD's as part of the Water & Wastewater Utility Fund. Compared to FY2011, property tax collections decreased by $261,000, principal and interest payments increased by $1.1 million due to additional debt service requirements incurred in recent years.

The bond fund has a total fund balance of $7.7 million, a decrease of $15.8 million from the prior year. This decrease can be attributed to the spending down of bond proceeds received in the prior year on capital projects.

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

Total net assets of the Water and Wastewater Utility Fund and the Surface Water Utility Fund amounted to $24.6 million and $10.9 million, respectively. Net Assets of the other enterprise funds amounted to $384,000. Other factors concerning the finances of these three funds have already been addressed in the discussion of the City's business-type activities.

## GENERAL FUND BUDGETARY HIGHLIGHTS

The General Fund fund balance decreased by $2.1 million primarily due to reduced revenues of $173,000, increases expenditures of $852,000, and reduced transfers of $747,000 as compared to FY2011. Expenditures in the police and fire departments increased by $501,000 and $416,000, respectively, as compared to the prior year. Total general fund actual expenditures were $2.1 million less than the final budget appropriation.

Final budget versus actual revenues for property taxes and penalties were unfavorable by $604,000 due to fewer collections of property taxes during the year as a result of a weaker economy. In FY2011, this amount was $151,000. Intergovernmental revenues were $1.2 million less than budgeted primarily due to a decrease in federal grant revenues.

## CAPITAL ASSETS

The City of Missouri City's investment in capital assets for its governmental and business type activities as of June 30, 2012, amounts to $278 million (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery, equipment and infrastructure.

**SCHEDULE OF CAPITAL ASSETS**
**(net of depreciation in thousands)**

| | Governmental Activities | | Business-type Activities | | Total Activities | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| Non-Depreciable Assets | | | | | | |
| Land | $ 11,788 | $ 11,788 | $ 4,741 | $ 2,138 | $ 16,529 | $ 13,926 |
| Intangibles - Right of Way | 2,711 | 2,711 | 11 | 11 | 2,722 | 2,721 |
| Construction in progress | 19,422 | 18,955 | 335 | 43,005 | 19,758 | 61,960 |
| Other Capital Assets | | | | | | |
| Infrastructure | 124,229 | 99,906 | 62,031 | 8,719 | 186,260 | 108,625 |
| Buildings | 20,092 | 20,278 | 2,935 | 3,014 | 23,027 | 23,292 |
| Improvements other than buildings | 23,021 | 15,723 | 54 | 61 | 23,076 | 15,784 |
| Machinery and equipment | 5,122 | 5,589 | 1,446 | 1,592 | 6,567 | 7,181 |
| Totals | $ 206,385 | $ 174,949 | $ 71,554 | $ 58,540 | $ 277,938 | $ 233,490 |

Construction in progress for the governmental funds ($19.4 million) at year-end represents numerous ongoing projects, the largest of which relates to the City Centre at Quail Valley ($8.7 million), the new Recreation & Tennis Center ($5.5 million), and the ERP Financial system ($1 million).

The construction in progress balance for the enterprise funds is down ($42.7 million) as compared to FY2011 due to the completion of the Surface Water Treatment Plant and near completion of the Steepbank Flatbank Wastewater Treatment Plant. The remaining balance of the enterprise fund construction in progress is $335,000 which represents three projects: the Mustang Bayou Water Plant ($183,000) and the Sienna North Conversion to Steepbank Flatbank project ($162,000). The Steepbank Flatbank Wastewater Treatment Plant is in its final stage of completion.

Additional information on the City's capital assets can be found in Note 7 to the financial statements.

## LONG-TERM DEBT

At the end of the current fiscal year, the City had total long-term debt debt outstanding of $157 million. Of this amount, $66.2 million is general obligation debt and $35 million comprises of debt as shown below. Business-type activities debt is comprised of $54.1 million in Certificates of Obligation.

**SCHEDULE OF LONG-TERM LIABILITIES**
**(net of depreciation in thousands)**

| | Governmental Activities | | Business-type Activities | | Total Activities | |
|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** | **2012** | **2011** |
| General Obligation Bonds | $ 66,235 | $ 71,425 | $ - | $ - | $ 66,235 | $ 71,425 |
| Certificates of Obligation | 29,640 | 30,603 | 54,125 | 55,582 | 83,765 | 86,185 |
| Increment Revenue Bonds | 5,365 | 5,620 | - | - | 5,365 | 5,620 |
| Tax Notes | 1,575 | - | - | - | 1,575 | - |
| Totals | $ 102,814 | $ 107,648 | $ 54,125 | $ 55,582 | $156,939 | $163,230 |

The City's total debt decreased by $6.3 million (4 percent) from the prior fiscal year. The City issued $1,730,000 in Tax Notes during the year for the new ERP financial system. This decrease was due to the debt service principal payments in the current fiscal year. The principal reduction of all debt during the year was $7.9 million.

All general obligation debt is scheduled to be retired by 2038.

The City has earned an "AA-" rating from Standard and Poor's and an "Aa2" rating from Moody's Investor Service. The City generally insures its debt issues to receive an "AAA" rating.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

## DEMOGRAPHIC FACTORS

The unemployment rate for Missouri City as of June 30, 2012, was 6.7 percent. The U.S. and Texas unemployment rates for June 2012 were 8.2 percent and 7.0 percent, respectively.

The city is expected to increase its population base over the next 5 years by 15%. Payroll earned at Missouri City jobs has grown considerably over the past 5 years, at just over $140 million. Many new jobs are being created in Missouri City each year, particularly in the industrial and retail sectors. Employment growth has been strong countywide and employment in Fort Bend County over the past 10 years as a total of 43,400 new jobs were created from 2003 to 2012 in Fort Bend County, about a 45% increase.

High median household incomes relative to housing prices have kept Missouri City much more affordable than its competitor cities. Missouri City has an even distribution of population by all age groups with the three largest average shares of population being between the ages of 44-54 (16.8%), ages 35-44 (14.2%), and ages 55-64 (14%). By 2016, it is expected that the average ages of population is expected to remain fairly the same with the majority of the population at ages 44-54 (15.4%), ages 55-64 (15.1%), and ages 34-44 (15.5%). The average median age as of 2011 was 37.8 years of age, an average median household income of $83,652, and an average household income of $101,888.

Retail sales in Missouri City have grown by 71% over the past 10 years since 2003 reaching $6.25 million in 2012.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Missouri City's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to Wesley J. Vela, Finance Director, City Hall, 1522 Texas Parkway, Missouri City, TX 77489, telephone (281) 403-8610; or, for general City information, visit the City's website at www.missouricitytx.gov.

## BASIC FINANCIAL STATEMENTS

Exhibit A-1

# City of Missouri City, Texas
## STATEMENT OF NET ASSETS
### June 30, 2012

| | Governmental Funds | Business-type Activities | Total |
|---|---|---|---|
| **Assets** | | | |
| Cash, cash equivalents and investments | $36,965,474 | $314,792 | $37,280,266 |
| Receivables | 4,829,099 | 1,075,092 | 5,904,191 |
| Internal balances | 175,048 | (175,048) | - |
| Inventories | 149,820 | 116,622 | 266,442 |
| Deferred Charges | 747,950 | 360,080 | 1,108,030 |
| Restricted assets: | | | |
| Cash and cash equivalents | - | 3,004,091 | 3,004,091 |
| Investments | - | 18,849,962 | 18,849,962 |
| Capital assets not being depreciated: | | | |
| Land | 11,787,967 | 4,741,426 | 16,529,393 |
| Right of Way | 2,711,421 | 11,000 | 2,722,421 |
| Construction in progress | 19,422,382 | 335,196 | 19,757,578 |
| Capital assets net of depreciation: | | | |
| Infrastructure | 124,228,569 | 62,031,385 | 186,259,954 |
| Buildings | 20,091,208 | 2,935,290 | 23,026,498 |
| Improvements other than Buildings | 23,021,222 | 54,334 | 23,075,556 |
| Machinery and equipment | 5,122,271 | 1,445,711 | 6,567,982 |
| **Total Assets** | $249,252,431 | $95,099,933 | $344,352,364 |
| **Liabilities** | | | |
| Accounts payable and other current liabilities | $5,332,844 | $2,303,982 | $7,636,826 |
| Accrued interest payable | 166,103 | 108,749 | 274,852 |
| Non-current liabilities: | | | |
| Due within one year | 6,439,706 | 1,523,320 | 5,209,666 |
| Due in more than one year | 100,994,718 | 55,368,462 | 159,116,540 |
| **Total Liabilities** | 112,933,371 | 59,304,513 | 172,237,884 |
| **Net Assets** | | | |
| Invested in capital assets, net of related debt | 112,072,157 | 19,054,462 | 131,126,619 |
| Restricted for: | | | |
| Capital projects | 2,832,016 | 10,721,258 | 13,553,274 |
| Debt service | 6,824,155 | - | 6,824,155 |
| Parkland dedication | 939,144 | - | 939,144 |
| Community development | 6,261,304 | - | 6,261,304 |
| Other purposes | 835,410 | - | 835,410 |
| Unrestricted | 6,554,873 | 6,019,700 | 12,574,573 |
| **Total Net Assets** | $136,319,060 | $35,795,420 | $172,114,480 |

See Notes to Financial Statements

# City of Missouri City, Texas
**STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2012**

| | | Program Revenues | | |
|---|---|---|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| **Functions/Programs** | | | | |
| **Governmental activities:** | | | | |
| General government | $ 4,005,420 | $ - | $ - | $ - |
| Finance | 1,727,595 | - | - | - |
| Police | 12,359,028 | 1,851,731 | 1,029,339 | - |
| Fire | 7,123,068 | 1,006,196 | - | - |
| Public Works | 9,804,954 | 61,365 | 13,744 | 24,370,740 |
| Parks and recreation | 3,603,491 | 192,867 | 619,734 | - |
| Planning | 2,886,938 | 2,484,366 | 314,403 | - |
| Interest on long-term debt | 4,353,598 | - | - | - |
| **Total governmental activities** | 45,864,092 | 5,596,525 | 1,977,220 | 24,370,740 |
| **Business-type activities:** | | | | |
| Water and Wastewater Utilities | 2,700,460 | 2,345,138 | 147,500 | 2,519,708 |
| Surface Water Utility Fund | 3,813,898 | 7,315,810 | - | 300 |
| Other | 5,177,503 | 5,237,265 | - | - |
| **Total business-type activities** | 11,691,861 | 14,898,213 | 735,558 | 1,931,950 |
| **Total Primary Government** | 57,555,953 | 20,494,738 | 2,712,778 | 26,302,690 |

**General revenues:**
Property taxes
Sales taxes
Franchise fees
Investment earnings
Other
Transfers

**Total General Revenues and Transfers**
**Change in Net Assets**
Net Assets, beginning
**Net Assets, Ending**

See Notes to Financial Statements.

**Exhibit A-2**

| Net (Expense) Revenues and Changes in Net Assets | | |
|---|---|---|
| Primary Government | | |
| Governmental Activities | Business-type Activities | Total |
| $ (4,005,420) | $ - | $ (4,005,420) |
| (1,727,595) | - | (1,727,595) |
| (9,477,959) | - | (9,477,959) |
| (6,116,872) | - | (6,116,872) |
| 14,640,895 | - | 14,640,895 |
| (2,790,890) | - | (2,790,890) |
| (88,169) | - | (88,169) |
| (4,353,598) | - | (4,353,598) |
| (13,919,608) | - | (13,919,608) |
| - | 2,311,886 | 2,311,886 |
| - | 3,502,212 | 3,502,212 |
| - | 59,763 | 59,763 |
| - | 5,873,860 | 5,873,860 |
| (13,919,608) | 5,873,860 | (8,045,747) |
| 24,054,499 | - | 24,054,499 |
| 6,249,961 | 23,170 | 6,273,131 |
| 3,404,612 | - | 3,404,612 |
| 830,936 | 565,070 | 1,396,006 |
| 98,530 | 9,020 | 107,550 |
| 460,124 | (460,124) | - |
| 35,098,663 | 137,136 | 35,235,799 |
| 21,179,055 | 6,010,996 | 27,190,051 |
| 115,140,005 | 29,784,424 | 144,924,429 |
| $ 136,319,060 | $ 35,795,420 | $ 172,114,480 |

# CITY OF MISSOURI CITY, TEXAS
## BALANCE SHEET
## GOVERNMENTAL FUNDS
## June 30, 2012

| | | General | | Debt Service | | Bond Fund | | Nonmajor Governmental Funds | | Total Governmental Funds |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Current Assets: | | | | | | | | | | |
| Cash and cash equivalents | $ | 1,045,654 | $ | 921,667 | $ | 1,419,005 | $ | 1,593,178 | $ | 4,979,504 |
| Investments | | 6,530,361 | | 5,783,242 | | 8,903,919 | | 9,996,827 | | 31,214,349 |
| Receivables | | 3,918,098 | | 285,349 | | - | | 625,434 | | 4,828,881 |
| Due from other funds | | 281,381 | | - | | 1,079 | | - | | 282,460 |
| Inventories | | 6,022 | | - | | - | | - | | 6,022 |
| **Total Assets** | **$** | **11,781,516** | **$** | **6,990,258** | **$** | **10,324,003** | **$** | **12,215,439** | **$** | **41,311,216** |
| **Liabilities and Fund Balances** | | | | | | | | | | |
| **Liabilities:** | | | | | | | | | | |
| Accounts payable | $ | 1,706,686 | $ | - | $ | 1,858,384 | $ | 440,846 | $ | 4,005,916 |
| Retainage payable | | - | | - | | 719,899 | | 3,141 | | 723,040 |
| Deferred revenue | | 1,238,614 | | 285,349 | | - | | 28,899 | | 1,552,862 |
| Due to others | | 420,976 | | - | | - | | - | | 420,976 |
| **Total Liabilities** | | 3,366,276 | | 285,349 | | 2,578,283 | | 472,886 | | 6,702,794 |
| **Fund Balances:** | | | | | | | | | | |
| Nonspendable: | | | | | | | | | | |
| Inventory | | 6,022 | | - | | - | | - | | 6,022 |
| Restricted for: | | | | | | | | | | |
| Law enforcement | | - | | - | | - | | 655,162 | | 655,162 |
| Facilities construction | | - | | - | | 7,745,721 | | 3,886,943 | | 11,632,664 |
| Debt service | | - | | 6,704,909 | | - | | - | | 6,704,909 |
| Parkland dedication | | - | | - | | - | | 939,144 | | 939,144 |
| Community Development | | - | | - | | - | | 6,261,304 | | 6,261,304 |
| Assigned: | | 585,417 | | | | | | | | 585,417 |
| Unassigned: | | 7,823,805 | | - | | - | | - | | 7,823,805 |
| **Total Fund Balances** | | 8,415,244 | | 6,704,909 | | 7,745,721 | | 11,742,553 | | 34,608,427 |
| **Total Liabilities and Fund Balances** | **$** | **11,781,520** | **$** | **6,990,258** | **$** | **10,324,004** | **$** | **12,215,439** | | |

| | |
|---|---|
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 203,577,760 |
| Internal service funds are used by management to charge costs of management information services, fleet and building maintenance and asset replacement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. | 3,383,545 |
| Long-term liabilities, including bonds, certificates of obligation payable, accrued compensated absences and related accrued interest are not due and payable in the current period and are therefore not reported in the funds. | (106,803,533) |
| Revenues that do not provide current financial resources are reported as deferred in the funds. | 1,552,861 |
| **Net Assets of Governmental Activities** | 136,319,060 |

See Notes to Financial Statements.

Exhibit A-4

# CITY OF MISSOURI CITY, TEXAS
## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## GOVERNMENTAL FUNDS
### For the Year Ended June 30, 2012

| | General Fund | Debt Service | Bond Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Taxes: | | | | | |
| Property Taxes and penalties | $ 14,135,357 | $ 7,304,992 | $ - | $ 2,491,496 | $ 23,931,845 |
| Other Taxes | 6,249,961 | - | - | - | 6,249,961 |
| Licenses and permits | 1,417,337 | - | - | - | 1,417,337 |
| Fines and forfeitures | 1,202,259 | - | - | - | 1,202,259 |
| Franchise Fees | 3,260,490 | - | - | 144,121 | 3,404,611 |
| Intergovernmental revenues | 839,815 | 1,844,435 | 1,774,734 | 3,381,771 | 7,840,755 |
| Other revenue | 1,145,511 | 116,411 | 476,125 | 645,629 | 2,383,676 |
| Charges for Services | 618,045 | - | - | 546,245 | 1,164,290 |
| **Total revenues** | 28,868,775 | 9,265,838 | 2,250,859 | 7,209,262 | 47,594,734 |
| **Expenditures** | | | | | |
| **Current:** | | | | | |
| General government | 3,822,292 | - | - | 166,561 | 3,988,853 |
| Finance | 1,665,912 | - | - | - | 1,665,912 |
| Police | 11,187,011 | - | - | 229,452 | 11,416,463 |
| Fire | 6,281,297 | - | - | - | 6,281,297 |
| Public works | 3,832,721 | - | - | - | 3,832,721 |
| Parks and recreation | 2,188,078 | - | - | 301,467 | 2,489,545 |
| Planning | 1,637,837 | - | - | 310,492 | 1,948,329 |
| **Capital outlay** | 65,112 | - | 18,009,292 | 3,438,103 | 21,512,507 |
| **Debt service:** | | | | | |
| Principal | - | 5,796,174 | - | 775,000 | 6,571,174 |
| Interest and fiscal charges | - | 3,361,690 | 150 | 928,766 | 4,290,606 |
| Total expenditures | 30,680,260 | 9,157,864 | 18,009,442 | 6,149,841 | 63,997,407 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | (1,811,485) | 107,974 | (15,758,583) | 1,059,421 | (16,402,673) |
| **Other Financing Sources (Uses)** | | | | | |
| Transfers from other funds | 1,161,004 | 310,124 | - | 100,000 | 1,571,128 |
| Transfers (to) other funds | - | - | - | (1,111,004) | (1,111,004) |
| Issuance of debt | - | - | - | 1,730,000 | 1,730,000 |
| **Total Other Financing Sources (Uses)** | 1,161,004 | 310,124 | - | 718,996 | 2,190,124 |
| **Change in Fund Balance** | (650,481) | 418,098 | (15,758,583) | 1,778,417 | (14,212,549) |
| Fund Balances, Beginning | 9,065,725 | 6,286,811 | 23,504,304 | 9,964,136 | 48,820,976 |
| **Fund Balances, Ending** | **$ 8,415,244** | **$ 6,704,909** | **$ 7,745,721** | **$ 11,742,553** | **$ 34,608,427** |

See Notes to Financial Statements.

**City of Missouri City, Texas**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
**For the Year Ended June 30, 2012**

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

| | |
|---|---|
| Net change in fund balance-total governmental funds. | (14,212,549) |
| 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 outlays exceeded depreciation in the current period. | 32,034,706 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | 272,319 |
| The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) 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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of of activities. This amount represents the repayment of long-term debt ($6,562,323), debt issuance premium of (-$29,098), and the proceeds of new debt issued (-$1,730,000). | 4,803,225 |
| 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 reflects the net change in interest payable ($8,433), the change in net pension liability of (-$456,343), change in compensated absences payable of (-$100,261), the Net OPEB Obligation accrual (-$184,384), and amortization of premium ($41,223). | (691,332) |
| The net income (loss) of certain activities of internal service funds is reported with governmental activities. | (1,027,314) |
| **Change in Net Assets of Governmental Activities** | $ 21,179,055 |

See Notes to Financial Statements

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Exhibit A-6

# City of Missouri City, Texas

## STATEMENT OF NET ASSETS
## PROPRIETARY FUNDS
## June 30, 2012

| | Business Type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water and Wastewater Utilities | Surface Water Utility Fund | Other Nonmajor Funds | Total | Governmental Activities - Internal Service Funds |
| **Assets** | | | | | |
| **Current Assets:** | | | | | |
| Cash and cash equivalents | $ 24,594 | $ - | $ 134,401 | $ 158,995 | $ 106,068 |
| Investments | 154,247 | - | 1,550 | 155,797 | 665,554 |
| Other receivables, net of allowance | 710,059 | - | 375,567 | 1,085,626 | 218 |
| Inventories | - | - | 116,622 | 116,622 | 143,797 |
| Restricted cash and cash equivalents | 1,410,190 | 1,592,509 | 1,392 | 3,004,091 | - |
| Restricted investments | 8,848,608 | 9,992,617 | 8,736 | 18,849,961 | - |
| Due from other funds | - | - | - | - | 246,349 |
| Total Current Assets | 11,147,698 | 11,585,126 | 638,268 | 23,371,092 | 1,161,986 |
| **Noncurrent Assets:** | | | | | |
| Issuance Costs | - | 360,080 | - | 360,080 | - |
| Capital assets: | | | | | |
| Land | 531,113 | 4,210,313 | - | 4,741,426 | - |
| Right of Way | 300 | 10,700 | - | 11,000 | - |
| Buildings | 3,946,598 | - | - | 3,946,598 | - |
| Construction in progress | 335,196 | - | - | 335,196 | - |
| Equipment | 2,553,864 | - | 5,898 | 2,559,762 | 10,242,341 |
| Infrastructure | 18,088,950 | 45,421,909 | - | 63,510,859 | - |
| Improvements | 126,247 | - | - | 126,247 | - |
| Less accumulated depreciation | (3,220,759) | (454,219) | (1,769) | (3,676,747) | (7,435,062) |
| Total Noncurrent Assets | 22,361,509 | 49,548,783 | 4,129 | 71,914,421 | 2,807,279 |
| **Total Assets** | **$ 33,509,207** | **$ 61,133,909** | **$ 642,397** | **$ 95,285,513** | **$ 3,969,265** |
| **Liabilities** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and other current liabilities | $ 219,045 | $ 2,120,626 | $ 83,595 | $ 2,423,266 | $ 182,911 |
| Due to other funds | - | - | 175,048 | 175,048 | 353,761 |
| Certificates of obligation bonds payable | 323,320 | 1,200,000 | - | 1,523,320 | - |
| Total Current Liabilities | 542,365 | 3,320,626 | 258,643 | 4,121,634 | 536,672 |
| Noncurrent Liabilities: | | | | | |
| Certificate of obligation bonds payable | 8,356,193 | 44,245,000 | - | 52,601,193 | - |
| Bond Premium Payable | - | 2,767,269 | - | 2,767,269 | - |
| Accrued compensation absences | - | - | - | - | 49,047 |
| Total Noncurrent Liabilities | 8,356,193 | 47,012,269 | - | 55,368,462 | 49,047 |
| Total Liabilities | 8,898,558 | 50,332,895 | 258,643 | 59,490,096 | 585,719 |
| **Net Assets** | | | | | |
| Invested in capital assets, net of related debt | 13,280,267 | 5,774,195 | - | 19,054,462 | 2,807,279 |
| Restricted for capital projects | 10,721,258 | - | - | 10,721,258 | - |
| Unrestricted | 609,124 | 5,026,819 | 383,754 | 6,019,697 | 576,267 |
| **Total Net Assets** | 24,610,649 | 10,801,014 | 383,754 | 35,795,417 | 3,383,546 |
| **Total Liabilities and Net Assets** | **$ 33,509,207** | **$ 61,133,909** | **$ 642,397** | **$ 95,285,513** | **$ 3,969,265** |

See Notes to Financial Statements.

Exhibit A-7

# CITY OF MISSOURI CITY, TEXAS

## STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
## PROPRIETARY FUNDS
## For the Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water and Wastewater Utilities | Surface Water Utility Fund | Other Nonmajor Funds | Total | Governmental Activities - Internal Service Funds |
| **Operating Revenues** | | | | | |
| Charges for Services | $ 2,345,137 | $ 7,315,810 | $ 5,260,435 | $ 14,921,382 | $ 3,938,013 |
| **Total Operating Revenues** | 2,345,137 | 7,315,810 | 5,260,435 | 14,921,382 | 3,938,013 |
| **Operating Expenses** | | | | | |
| Personnel | - | - | 540,934 | 540,934 | 1,081,478 |
| Commodities | 234,892 | 653,490 | 482,859 | 1,371,241 | 791,556 |
| Contractual services | 1,635,190 | 542,736 | 4,039,206 | 6,217,125 | 2,294,867 |
| Other services | 4,298 | - | 113,324 | 117,622 | 6,117 |
| Depreciation | 453,796 | 454,219 | 1,180 | 909,195 | 838,075 |
| **Total Operating Expenses** | 2,328,176 | 1,650,445 | 5,177,503 | 9,156,117 | 5,012,093 |
| **Operating Income (Loss)** | 16,961 | 5,665,365 | 82,932 | 5,765,265 | (1,074,080) |
| **Non-Operating Revenues (Expenses)** | | | | | |
| Investment Earnings | 190,702 | 372,962 | 1,406 | 565,070 | 19,290 |
| Interest Expense | (372,285) | (2,163,454) | - | (2,535,739) | - |
| Gain/loss on disposal of capital assets | 9,020 | - | - | 9,020 | 2,592 |
| Developer contributions and other | 735,558 | - | - | 735,558 | - |
| Insurance reimbursements | - | - | - | - | 38,836 |
| **Total Non-Operating Revenues** | 562,995 | (1,790,492) | 1,406 | (1,226,091) | 60,718 |
| **Income (Loss) Before Contributions and Transfers** | 579,956 | 3,874,873 | 84,338 | 4,539,174 | (1,013,362) |
| Capital contributions | 1,931,650 | 300 | - | 1,931,950 | (13,950) |
| Transfers (to) other funds | (310,124) | (150,000) | - | (460,124) | - |
| **Total Contributions and Transfers** | 1,621,526 | (149,700) | - | 1,471,826 | (13,950) |
| **Change in Net Assets** | 2,201,482 | 3,725,173 | 84,338 | 6,011,000 | (1,027,312) |
| Net assets, beginning | 22,409,167 | 7,075,841 | 299,416 | 29,784,424 | 4,410,858 |
| **Net assets, Ending** | **$ 24,610,649** | **$ 10,801,014** | **$ 383,754** | **$ 35,795,424** | **$ 3,383,546** |

See Notes to Financial Statements.

# City of Missouri City, Texas
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## For the Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water and Wastewater Utilities | Surface Water Utility Fund | Other | Total | Governmental Activities - Internal Service Funds |
| **Cash Flows from Operating Activities** | | | | | |
| Receipts from customers and users | 2,765,803 | 7,315,810 | 5,126,016 | 15,207,629 | 3,938,012 |
| Disbursed for personnel services | - | - | (543,942) | (543,942) | (1,072,726) |
| Disbursed for good and services to suppliers | (1,565,456) | (2,950,275) | (4,506,287) | (9,022,018) | (3,025,465) |
| **Net Cash Provided (Used) by Operating Activities** | 1,200,347 | 4,365,535 | 75,787 | 5,641,670 | (160,179) |
| **Cash Flows From Noncapital Financing Activities** | | | | | |
| Transfer (to) from other funds | (508,938) | (150,000) | - | (658,938) | - |
| **Net Cash Provided by Noncapital Financial Activities** | (508,938) | (150,000) | - | (460,124) | - |
| **Cash Flows from Capital & Related Financing Activities** | | | | | |
| Proceeds from disposal of assets | - | - | - | - | 2,592 |
| Insurance Reimbursements | - | - | - | - | 38,836 |
| Interest paid (received) on capital debt | (381,550) | (2,043,347) | - | (2,424,897) | - |
| Acquisition and construction of capital assets | (2,155,984) | (11,766,903) | - | (13,922,887) | (239,674) |
| Capital contributions | 1,780,616 | - | - | 1,780,616 | (13,950) |
| Principal (paid) received on capital debt | (307,676) | (1,150,000) | - | (1,457,676) | - |
| Debt Issuance Fees | - | (115,303) | - | (115,303) | - |
| Advances from other funds | - | - | - | - | (218) |
| **Net Cash (Used) by Capital & Related Financing Activities** | (1,064,594) | (15,075,553) | - | (16,140,147) | (212,414) |
| **Cash Flows from Investing Activities** | | | | | |
| Interest Received | 190,702 | 372,962 | 1,406 | 565,070 | 19,290 |
| Purchase of investments | (798,608) | 7,058,565 | (10,286) | 6,249,670 | 203,472 |
| **Net Cash Provided by Investing Activities** | (607,906) | 7,431,527 | (8,880) | 6,814,740 | 222,762 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (981,091) | (3,428,491) | 66,907 | (4,143,861) | (149,831) |
| Cash and cash equivalents, beginning | 2,415,875 | 5,021,000 | 68,886 | 7,505,761 | 255,899 |
| **Cash and Cash Equivalents, Ending** | 1,434,784 | 1,592,509 | 135,793 | 3,361,900 | 106,068 |

See Notes to Financial Statements.

# City of Missouri City, Texas
## STATEMENT OF CASH FLOWS
## PROPRIETARY FUNDS
## For the Year Ended June 30, 2012

| | Business-type Activities - Enterprise Funds | | | | |
|---|---|---|---|---|---|
| | Water and Wastewater Utilities | Surface Water Utility Fund | Other | Total | Governmental Activities - Internal Service Funds |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | | | | |
| Operating income (loss) | $ 912,575 | $ 5,665,365 | $ 82,940 | $ 6,660,881 | $ (1,074,079) |
| Adjustments to reconcile operating income to net cash used by operating activities: | | | | | |
| Depreciation | 453,796 | 454,219 | 1,180 | 909,195 | 838,075 |
| (Increase) decrease in accounts receivable | (217,044) | - | (134,426) | (351,470) | - |
| (Increase) in inventories | - | - | (18,695) | (18,695) | (29,741) |
| Increase (Decrease) in accounts payable | 51,020 | (1,754,049) | 29,132 | (1,673,897) | 42,884 |
| Increase (decrease) in due to other funds | - | - | 115,656 | 115,656 | 58,735 |
| (Decrease) increase in compensated absences payable | - | - | - | - | 3,947 |
| Total adjustments | 287,772 | (1,299,830) | (7,153) | (1,019,211) | 913,900 |
| **Net Cash Provided by Operating Activities** | $ 1,200,347 | $ 4,365,535 | $ 75,787 | $ 5,641,670 | $ (160,179) |
| **Breakdown of Restricted and Unrestricted Cash and Cash Equivalents:** | | | | | |
| Restricted | 1,410,190 | 1,592,509 | 1,392 | 3,004,091 | - |
| Unrestricted | 24,594 | - | 134,401 | 158,995 | 106,068 |
| Total | $ 1,434,784 | $ 1,592,509 | $ 135,793 | $ 3,163,086 | $ 106,068 |
| **Noncash Investing, Capital and Financing Activities:** | | | | | |
| Capital asset contributions from governmental funds | 1,780,616 | - | - | 1,780,616 | - |

See Notes to Financial Statements.

CITY OF MISSOURI CITY, TEXAS

# TABLE OF CONTENTS FOR NOTES TO FINANCIAL STATEMENTS
June 30, 2011

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Missouri City, Texas, was incorporated March 12, 1956, and adopted the Home Rule Charter November 23, 1974, pursuant to the laws of the State of Texas. The City operates under a "Council-Manager" form of government and provides services authorized by its charter. Presently, these services include police and fire protection, drainage, building and code inspection, planning, zoning, engineering, street repair and maintenance, park maintenance, recreational activities for citizens, and general administrative services.

The financial statements of the City of Missouri City have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

### A. Reporting Entity

The City is an independent political subdivision of the State of Texas, governed by an elected mayor and six-member council, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The Missouri City Development Authority and Tax Incremental Reinvestment Zones 1, 2 and 3, and Public Improvement Districts 2 and 4 have been included in the City’s financial reporting. These legally separate entities are blended component units and are included as Special Revenue Funds of the City as indicated by GASB 14. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity. The City maintains all accounting records for the blended component units.

Separate financial statements are not issued for the above-mentioned blended component units. The basic financial statements for the City of Missouri City include all activities, organizations and functions for which the City is financially accountable. The criteria considered include (1) whether the organization is part of the City’s legal entity or (2) whether the City appoints the voting majority of the organization’s governing body and either (a) the City is able to impose its will on the organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City. In addition, an organization may be financially dependent on the City and also included in its reporting entity. Those criteria are based upon and are consistent with those set forth in the Codification of Governmental Accounting Standards, Section 2100, Defining the Financial Reporting Entity. Based on these criteria, the various funds shown in the Table of Contents are included in the report, which include the blended component units noted above.

The blended component units include seven entities that are so closely related to the City that they are, in effect, the same as the City. Included in this category are the Missouri City Development Authority, Tax Incremental Reinvestment Zones (TIRZ) 1, 2 and 3, and Public Improvement Districts (PID) 2 and 4. These entities are reported as Special Revenue Funds. The

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

Missouri City Recreation and Leisure Local Government Corporation (LGC) is a proprietary fund that also is a blended component unit that operates from user fees. Specifically, all the members of Missouri City's governing body (City Council) serve as board members of the Development Authority Board, both Public Improvement Districts and the Missouri City Recreation and Leisure LGC. The City Council appoints the majority of the directors of the Tax Incremental Reinvestment Zones. The City Council appoints six of the eight board members for TIRZ 1, and seven of the eleven board members for TIRZ 3. Both boards are substantively the same as the City. Contributions to the TIRZs, in the form of incremental tax revenues, come from the City and Fort Bend County, whom can each appoint one board member. The sole purpose of TIRZ 1, 2 and 3 is to finance capital assets that will be owned by the City.

Fort Bend Independent School District elected not to join the TIRZs. The boards of the zones/districts make recommendations to City Council regarding the administration of the zones/districts. The boards are not authorized to issue bonds, impose taxes or assess fees. The City approves the tax rate, and assumes obligation to finance deficits in the zones on a short-term basis until incremental improvements are made and the City Manager is authorized to hire consultants for the zones. The above-mentioned component units' services (providing infrastructure that will be owned by the City) almost exclusively benefit the City in that the development of these areas (economically depressed areas) increases the tax base, resulting in additional revenue to the City.

The City developed a regional wastewater treatment master plan to achieve economies of scale by requiring utility districts and new developments to share wastewater treatment plants. The first City-operated wastewater treatment plant opened in December 1999. Severn Trent Environmental Services, Inc., was initially contracted to operate the plant and Quail Valley Municipal Utility District has taken over the contract to operate the plant. The construction of the plant (two Capital Project Funds) and its operation (a Special Revenue Fund) are included in the City's reporting entity since the City establishes the budget and sets the rates to be paid by the MUD districts.

Presently, the City has nineteen (19) active municipal utility districts providing water and sewer services within the City. These districts are not considered a part of the City's legal entity since they are not fiscally dependent on the City, have taxing powers and set their own budgets.

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

Separate financial statements are provided for governmental funds and proprietary 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.

**B. 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 and fiduciary fund financial 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.

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, franchise taxes, license, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received by the government.

The government reports the following major Governmental Funds:

**General Fund**

The General Fund is the government's primary operating fund. The General Fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues of the general fund are property taxes, sales and use taxes, franchise fees, permit fees, and fines and forfeitures. Expenditures are for general government, finance, public safety, public works, park maintenance and recreation, planning and zoning, and engineering.

**Debt Service Fund**

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The primary source of revenue for debt service is property taxes.

**Bond Fund**

The Bond Fund is used to account for the proceeds from the sale of general obligation bonds and certificates of obligation and expenditures of these proceeds for the acquisition of capital assets as designated in each bond issue.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The government reports the following major Proprietary Funds:

**Water and Wastewater Utilities Fund**
The Water and Wastewater Utility Fund accounts for the provision of water and wastewater services to the citizens of the City of Missouri City who are not serviced by one of the nineteen (19) municipal utility districts (MUDs). The two main areas included at this time in the Water and Wastewater Utilities Fund are Northeast Oyster Creek (NEOC) Service area and the Mustang Bayou (MB) Service area for both water and wastewater treatment, and wastewater treatment for Hightower High School. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance, financing, debt service, billing and collection.

**Surface Water Utility Fund**
The Surface Water Utility Fund is used to account for the construction and operation of a surface water treatment plant to service the City (including twenty-two municipal utility districts and other special water districts). The surface water treatment plant is an integral part of the area's Groundwater Reduction Plan. A plan entered into by these districts legally obligates each participant for the repayment of the construction debt.

Additionally, the government reports Internal Service Funds to account for fleet management services, information technology services, building maintenance services, fleet asset replacement and information technology asset replacement provided to other City departments and functions of the government on a cost reimbursement basis.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule relate to charges between the City's enterprise fund functions and other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 revenues of the City's internal services funds are charges for sales and services. Operating expenses for the internal service funds include the costs of sales and services and depreciation expense on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. Cash and Cash Equivalents**
Cash and cash equivalents consist of amounts in a demand account, money market mutual fund, petty cash funds, Texas Local Government Investment Pool (TEXPOOL), the Local Government Investment Cooperative (LOGIC) and short-term investments with maturities of three months or less. Both TEXPOOL and LOGIC are external investment pools established by interlocal contracts under state law. Investments and securities are booked at cost and amortized monthly to reach par at maturity. Investments are generally held to maturity.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase investments. These pooled investments are reported in the combined balance sheet as investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund monthly based on its respective share of pooled investments.

For the purpose of the Statement of Cash Flows, the City considers all investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

The City pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various bearing securities and disclosed as part of the City's investments. The City pools excess cash of the various individual funds to purchase investments. These pooled investments are reported in the combined balance sheet as investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund monthly based on its respective share of pooled investments.

For the purpose of the Statement of Cash Flows, the City considers all investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

**D. Receivables**

The City records certain revenues billed to other governmental agencies, residents, and others on a monthly basis. Adjustments to revenue were made for uncollectible accounts as needed. At June 30, 2012, an allowance of $858,106 was provided for possible adjustments for uncollectible accounts.

**E. Interfund Receivables and Payables**

During the course of operations, transactions occur between individual funds for specified purposes. These receivables and payables are, for the most part, eliminated from the government-wide Statement of Net Assets and are classified as "due from other funds" or "due to other funds" in the fund financial statements.

**F. Inventory**

Inventory, which consists of gasoline and parts for use in the City's vehicles, is stated at cost (first-in, first-out method). Expenditures are recognized as the fuel and parts are used.

**G. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, other than infrastructure items, are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Infrastructure is not held to the $5,000 limit; all infrastructure is capitalized regardless of cost. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the City of Missouri City's enterprise funds during the current fiscal year was $2,415,632, of which none has been capitalized.

Land is not depreciated. Property, plant, equipment and infrastructure assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

| Asset Description | Years |
|---|---|
| Building & Building Improvements | 15-50 |
| Land improvements | 10-20 |
| Infrastructure | 10-65 |
| Machinery & Equipment | 4-25 |

**H. Compensated Absences**

Compensated absences, which include unpaid vacation and other employee benefit amounts, are accumulated during employment. Amounts accumulated are paid to employees upon separation from City service. At June 30, 2012, all amounts accrued for compensated absences have been included as liabilities in the Government-wide Statement of Net Assets and as designated fund balances in the fund that pays the unpaid vacation and other employee benefits. Employees earn vacation leave at the rate of ten days per year from one to five years and up to sixteen days per year for service of fifteen years or more. Police and Fire employees, as defined under Section 142.010 of the Texas Local Government Code, receive fifteen days vacation after one full year of employment and sixteen days vacation for fifteen years and over.

The maximum accrual an employee may maintain is two times the annual rate. City employees receive eleven paid holidays per year. Employees may be paid or may elect to receive compensatory time off for the holiday. Overtime is earned at one and one-half times the regular rate of pay. Employees may be paid or receive compensatory time. The maximum accrual for holiday and overtime is 120 hours.

**I. Long-Term Obligations**

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

The fund financial statements report bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources at par. Premiums or discounts associated with the debt are reported as other financing uses.

**J. Fund Balance**
As of these financial statements, the City has adopted GASB Statement No.54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

> **Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
>
> **Restricted** – Amounts that can be spent only for specific purposes because of the City Charter, City Code, State or Federal laws, or externally imposed conditions by grantors or creditors.
>
> **Committed** – Amounts than can be used only for specific purposes determined by ordinances passed by City Council, the City's highest level of decision making authority. This includes the budget reserve account. Commitments may be modified or rescinded only through ordinances approved by City Council.
>
> **Assigned** – Amounts that are intended to be used for a specific purposes, but do not meet the definition of restricted or committed fund balance. Under the City's policy, amounts can be assigned by the City Manager.
>
> **Unassigned** – All amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 22). As discussed in Note 1, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by Council or the assignment has been changed by the City Manager. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

As discussed in Note 14, as of June 30, 2012, the City has $6,444,790 of encumbrances of operating funds in major and non-major funds that rolled over into the next fiscal year.

**K. Use of Estimates**
The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates

**L. Restricted Resources**
The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**M. Restricted Assets**
The Enterprise Funds have restricted certain cash and investments for customer deposits, reserve and emergency expenditures, capital improvements, cash restricted for others, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. The proceeds from debt are restricted for use on capital projects.

**N. Comparative Data and Reclassifications**
Comparative data for the prior year have been presented in certain sections of the accompanying financial statements in order to provide an understanding of changes in the District's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

## NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental funds as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, certification of obligation payable, and post employment benefits, are not due and payable in the current period and are therefore not reported in the funds."

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The details of this $106,803,533 difference are as follows:

| | | |
|---|---|---|
| Total Governmental Activities Long Term Liabilities: | $ | 107,385,376 |
| Less deferred amounts for issuance costs | | (747,950) |
| Plus accrued interest | | 166,107 |
| Net adjustments to reduce fund balance - total government funds to arrive at net assets - governmental activities | $ | 106,803,533 |

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as "depreciation expense." The details of this $32,034,705 difference are as follows:

| | | |
|---|---|---|
| Capital Outlay | $ | 38,145,981 |
| Depreciation Expense (less internal service funds) | | (6,111,276) |
| Net adjustment to increase net change in fund balance - total governmental funds to arrive at changes in net assets of governmental activities. | $ | 32,034,705 |

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The City's cash and investments are classified as cash and cash equivalents and investments. The cash and cash equivalents include cash on hand, deposits with financial institutions, short-term investments in external public funds investment pool accounts (LOGIC) and (TEXPOOL), and other investments, which have maturities at purchase date of less than three months. The investments, which have maturities at purchase date of greater than three months, consist mainly of commercial paper and U.S. government obligations. For better management of cash, the City pools the cash, based on the City's needs, into deposits in the bank, in short-term investments with LOGIC and TEXPOOL, or in longer term investments in commercial paper or U.S. Government securities. However, each fund's balance of cash and investments is maintained in the books of the City.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

### Cash and Cash Equivalents

The City's deposits are maintained under the provisions of a depository contract as a cash concentration account for use by all City funds. All receipts of City funds are deposited into a money market mutual fund account, and the depository bank transfers funds to a separate demand deposit checking account as checks are posted. The City bids out excess funds as necessary and awards the bid to the institution or agency offering the highest interest rate. Brokers/dealers must complete a questionnaire, submit financial statements, and be approved by City Council before being accepted to bid on investments of excess City funds.

At year-end, the City had cash on hand, bank deposits, deposits with LOGIC and TEXPOOL, and investments with maturities of three months or less at date of purchase as follows:

| Fund | Cash on Hand | Bank Deposits | Cash Equivalent Investments | Total |
|---|---|---|---|---|
| General | $ 4,920 | $ 452,359 | $ 592,475 | $ 1,045,654 |
| Special Revenue | - | 475,181 | 622,367 | 1,098,410 |
| Debt Service | | 398,721 | 522,223 | 921,667 |
| Capital Projects | | 827,916 | 1,084,359 | 1,913,775 |
| Internal Service | | 45,886 | 60,099 | 106,068 |
| Enterprise | 1,550 | 1,369,049 | 1,793,106 | 3,164,636 |
| | **$ 6,470** | **$ 3,569,113** | **$ 4,674,628** | **$ 8,250,211** |

### Custodial Credit Risk - Deposits

For deposits, this is the risk that, in the event of bank failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. Collateral is required for all bank deposits at 100 percent of deposits not covered by federal depository insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts. Collateral pledged to cover the City's deposits is required to be held in the City's name by the trust department of a bank other than the pledging bank (the City's agent). Collateral securities must bear a Baa-1 or better rating to qualify for use in securing uninsured depository balances.

Deposits at year-end are representative of the types of deposits maintained by the City during the year. The City's deposits in banks at year-end were entirely covered by federal depository insurance or by acceptable collateral held by the City's agent in the City's name.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

**Investments**

The Council has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act (Chapter 2256 Texas Government Code). The investments of the City are in compliance with the Council's investment policies. It is the City's policy to restrict its investments to direct obligations of the U.S. Government, commercial paper, fully collateralized certificates of deposit and other interest-bearing time and demand deposits, and other instruments and investments in public funds investment pools such as the Local Government Investment Cooperative (LOGIC) and Texas Local Government Investment Pool (TEXPOOL).

Under provisions of state and local statutes, the City's investment policies, and provisions of the City's depository contracts with the area financial institutions, the City is authorized to place available deposits and investments in the following:

1. Obligations of the U.S., its agencies, and instrumentalities.
2. Direct obligations of the State of Texas or its agencies.
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 on 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 agencies and instrumentalities.
5. Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to the investment quality by a nationally recognized investment firm and having received a rating of not less than A or its equivalent.
6. Bonds issued, assumed, or guaranteed by the State of Israel.
7. Certificates of Deposit issued by state and national banks or a savings bank, state or federal credit union domiciled in this state that are:
   - guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union or its successor;
   - secured by obligations that are described in 1-6 above, which are intended to include all direct federal agency or instrumentality issued mortgage backed securities that have a fair value of not less than the principal amount of the certificates or in any other manner and amount provided by law for deposits of the investing entities.
8. Fully collateralized repurchase agreements having a defined termination date, secured by obligations of the United States, its agencies or instrumentalities, pledged with a third party selected or approved by the political entity, and placed through a primary government securities dealer, as defined by the Federal Reserve, or through a financial institution domiciled in the State of Texas.
9. Prime domestic banker's acceptances, defined as a banker's acceptance with a remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or equivalent by at least one nationally recognized credit rating agency.
10. Commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or State bank.

11. SEC-registered no-load money market mutual fund (MMMF), with a dollar weighted average portfolio maturity of 90 days or less, includes in their investment objectives the maintenance of a stable net asset value of $1 for each share.
12. SEC-registered, no-load money market mutual funds (MMMF) that have an average weighted maturity of less than two years, invests exclusively in obligations described above and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than AAA or its equivalent.
13. Authorized guaranteed investment contracts that have a defined termination date, are secured by obligations described in 1-6 above, are pledged to the City and deposited with the City or with a third party selected and approved by the City.
14. Authorized government investment pools that invest solely in obligations of any of the above investments provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service.

All significant legal and contractual provisions for investments were complied with during the year.

As of June 30, 2012, the City had the following investments:

| | Fair Value | Weighted Average Maturity (Days) | Percentage of Portfolio |
|---|---|---|---|
| U.S. Government Agency Notes: | | | |
| Ginnie Mae Agency Notes | $ 4,769,495 | 34 | 9% |
| Federal Home Loan Bank Agency Notes | 11,774,696 | 134 | 22% |
| Fannie Mae Agency Notes | 31,774,424 | 250 | 60% |
| Total U.S. Government Agency Notes | 48,318,614 | | |
| TexPool | 62,918 | 46 | 0% |
| LOGIC | 4,611,429 | 42 | 9% |
| **Total Investments per Balance Sheet** | $ 52,992,962 | | |

The U.S. government securities were purchased through a broker/dealer and held for safekeeping by the City's depository bank (independent agent), registered for the account of Missouri City. The City generally holds all investments to maturity date. The City had no derivative investment products during the current year. The City did not have any reverse repurchase or repurchase agreement transactions. Fair values of investments are based on quoted market prices. The investments are reported by the City at fair values determined by quoted market prices.

The money market mutual fund is an open-ended mutual fund, which invests solely in U.S. Treasury securities. The mutual fund's assets consist only of securities scheduled to mature within 13 months or less from date of acquisition. The fund maintains a dollar-weighted average portfolio maturity of 90 days or less. In addition, the fund seeks to maintain a net asset value of

$1 per share. The City considers the money market mutual fund to have a one-day weighted average maturity due to the fact the position can be redeemed each day at its discretion.

The Local Government Investment Cooperative (LOGIC) and the Texas Local Government Investment Pool (TEXPOOL) amounts are not evidenced by securities that exist in physical or book entry form and, accordingly, are not categorized by risk. However, the nature of these funds requires that they be used to purchase investments authorized by the Public Funds Investment Act. The primary objective of these investment pools is to provide a safe environment for the placement of public funds in short-term, fully collateralized investments. The City considers the holdings in LOGIC and TEXPOOL to be redeemable within one day although the weighted average maturity days are 54 and 45 respectively. Weighted average maturity is determined and defined by the nature of the deposits in the pools, not by the account holder.

The State of Texas exercises oversight responsibility over TEXPOOL in accordance with state laws and the Public Funds Investment Act. Texpool is an external pool and operates in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940. Net assets are reported using amortized cost rather than fair value in computing share price. In accordance with TEXPOOL management policies, the net asset value will always be between .9965 and 1.0035. Accordingly, the fair value of the City's position in the pool is the same as the value of the shares in the pool.

If at any time, pursuant to its daily calculation, the deviation between the amortized cost and market-determined values per share of the Portfolio's assets exceeds $0.0030, the Co-Administrators shall promptly notify the Board. In the event that the deviation from amortized cost per share exceeds $0.0040, the Board shall promptly hold a meeting and the Co-Administrators shall take action as directed by the Board. However, absent contrary instructions, the Co-Administrators shall promptly sell portfolio holdings, or will take such other action as the Board, or their delegates, may direct to eliminate or reduce to the extent reasonably practicable any dilution or unfair results to existing Unitholders.

LOGIC is a local government investment fund that operates as a money market fund under the Public Funds Investment Act, which requires that it maintain an AAA, AAA-m or equivalent rating from a nationally recognized rating service. LOGIC is rated AAAm and operates in full compliance with the PFIA and rating agency requirements. As a local government investment fund, LOGIC is exempted from SEC registration and the requirements of Rule 2a-7 pertaining to registered money market funds; however, consistent with Rule 2a-7, it seeks to maintain a stable net asset value of $1.00 per unit. Pursuant to an action by the Board of Directors, LOGIC began reporting its investments using the fair value method, rather than at their amortized cost, on August 31, 2010. Currently, fixed income securities (other than short term investments maturing in less than 61 days) are valued each day based on readily available market quotations received from independent or affiliated pricing services or third party broker dealers. The net asset value per unit of LOGIC is calculated each business day by adding the fair value of LOGIC's securities and other assets, deducting accrued expenses and arrearages, and dividing by the number of units outstanding. As previously noted, it is the intention of LOGIC to maintain a net asset value of $1.00.

**Interest Rate Risk**
In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than two years to meet cash requirements for ongoing operations.

**Credit Risk - Investments**
In accordance with its investment policy, the City minimized credit risk losses due to default of a security issuer or backer, by limiting investments to the safest types of securities. All of the City's U.S. Agency investments are insured, registered, or the City's agent holds the securities in the City's name; therefore the City is not exposed to custodial credit risk. As of June 30, 2012, TEXPOOL and LOGIC investments are both rated AAAm by Standard and Poors.

**Concentration of Credit Risk**
The City's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. However, at June 30, 2011, the City held six securities totaling $43,985,845, each of which had an investment balance greater than five percent of total investments at that time.

## NOTE 4 - PROPERTY TAXES

Property taxes for each year are levied on approximately August 1 and are due upon receipt of the City's tax bill and become delinquent on February 1 of the following year. On January 1 of each year, a tax lien is attached to the property to secure the payment of all taxes, penalties, and interest. The lien exists in the favor of the State and each taxing unit. Appraised values are established by the Fort Bend Central Appraisal District (CAD), through procedures established by the Texas Legislature. The County bills and collects property taxes on behalf of the City, and remits payment to the City on a frequent basis. The City bills its tax levies as soon as possible after certification of taxable values by the CAD, which is approximately August 1 as noted above. Additional tax bills are sent in December, February, April, and July (which includes a surcharge for legal costs associated with collection). In August, delinquent taxes are turned over to the City's delinquent tax attorneys for final collection or other disposition.

The City is permitted, by Article XI, Section 5, of the State of Texas Constitution and the City Charter, to levy property taxes up to $2.50 per $100 of assessed valuation for general governmental services. Within the $2.50 maximum levy, there is no legal limit upon the amount of property taxes, which can be levied for debt service. The property tax rates to finance general governmental services and debt service for the 2011-12 fiscal year were $.34773 and $.18067 respectively, per $100 of assessed valuation. The 2011 assessed value and total tax levy as adjusted through June 30, 2012, were $4,255,208,757 and $22,141,154, respectively. The allowance for uncollectible tax accounts as of June 30, 2012, is estimated at $36,020.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

## NOTE 5 - RECEIVABLES

Receivables as of year-end for the government's individual major and non-major funds, and internal service funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Debt Service | Non-major Funds | Intrnal Service | Total Governmental Funds | Water and Wastewater Utilities | Other Enterprise Funds | Total Enterprise Funds | Total |
|---|---|---|---|---|---|---|---|---|---|
| Receivables | | | | | | | | | |
| Property Taxes | $ 603,255 | $ 297,238 | $ - | $ - | $ 900,493 | $ - | $ - | $ - | $ 900,493 |
| Municipal court | 1,433,467 | | | | 1,433,467 | | | | 1,433,467 |
| Other | 725,204 | | 66,795 | 218 | 792,217 | | 368,980 | 368,980 | 1,161,196 |
| Due from other governments | 1,991,563 | | 558,640 | | 2,550,202 | 710,059 | - | 710,059 | 3,260,261 |
| Gross receivables | 4,753,489 | 297,238 | 625,434 | 218 | 5,676,379 | 710,059 | 368,980 | 1,079,039 | 6,755,418 |
| Less: allowance for uncollectable | (835,390) | (11,890) | | - | (847,280) | | (3,947) | (3,947) | (851,227) |
| Net Total Receivables | $ 3,918,098 | $ 285,349 | $ 625,434 | $ 218 | $ 4,829,099 | $ 710,059 | $ 365,033 | $ 1,075,092 | $ 5,904,191 |

## NOTE 6 - DEFERRED REVENUES

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

| | General Fund | Debt Service | Non-Major Governmental Funds | Total |
|---|---|---|---|---|
| Property taxes receivable | $ 579,125 | $ 285,349 | $ - | $ 864,473 |
| Municipal court | 659,330 | - | 28,899 | 688,228 |
| Court technology fees | 159 | - | - | 159 |
| | $ 1,238,614 | $ 285,349 | $ 28,899 | $ 1,552,861 |

## City of Missouri City, Texas
## NOTES TO FINANCIAL STATEMENTS

## NOTE 7 - CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended June 30, 2012:

| | Balance July 1, 2011 | Increases | (Decreases) | Balance June 30, 2012 |
|---|---|---|---|---|
| **Governmental activities:** | | | | |
| Capital assets, not being depreciated | | | | |
| Land | 11,787,967 | - | - | 11,787,967 |
| Intangibles - Right of Way | 2,711,421 | - | - | 2,711,421 |
| Construction in progress | 18,954,598 | 15,923,667 | (15,455,883) | 19,422,382 |
| Total capital assets, not being depreciated | 33,453,987 | 15,923,667 | (15,455,883) | 33,921,771 |
| Capital assets being depreciated: | | | | |
| Buildings and Building Improvements | 25,483,057 | 362,667 | - | 25,845,724 |
| Improvements other than buildings | 19,806,146 | 8,449,381 | - | 28,255,526 |
| Infrastructure | 157,014,807 | 28,351,590 | - | 185,366,397 |
| Machinery and equipment | 13,788,627 | 781,919 | (256,515) | 14,314,031 |
| Total capital assets being depreciated | 216,092,637 | 37,945,557 | (256,515) | 253,781,679 |
| Less accumulated depreciation for: | | | | |
| Buildings and Building Improvements | (5,205,621) | (548,896) | - | (5,754,517) |
| Improvements other than buildings | (4,083,141) | (1,151,165) | - | (5,234,306) |
| Infrastructure | (57,108,954) | (4,028,876) | - | (61,137,831) |
| Machinery and equipment | (8,200,172) | (1,220,413) | 228,830 | (9,191,756) |
| Total accumulated depreciation | (74,597,888) | (6,949,351) | 228,830 | (81,318,409) |
| Total capital assets being depreciated, net | 141,494,749 | 30,996,206 | (27,685) | 172,463,269 |
| Governmental activities capital assets, net | 174,948,736 | 46,919,873 | (15,483,568) | 206,385,040 |
| **Business-type activities:** | | | | |
| Capital assets, not being depreciated | | | | |
| Land | 2,138,225 | 2,603,201 | - | 4,741,426 |
| Intangibles - Right of Way | 10,700 | 300 | - | 11,000 |
| Construction in progress | 43,004,798 | 328,685 | (42,998,286) | 335,197 |
| Total capital assets, not being depreciated | 45,153,723 | 2,932,186 | (42,998,286) | 5,087,623 |
| Business-type assets, being depreciated | | | | |
| Buildings and Building Improvements | 3,946,598 | - | - | 3,946,598 |
| Improvements other than buildings | 126,247 | - | - | 126,247 |
| Infrastructure | 9,521,573 | 53,989,288 | - | 63,510,861 |
| Machinery and equipment | 2,559,763 | - | - | 2,559,763 |
| Total capital assets being depreciated | 16,154,181 | 53,989,288 | - | 70,143,469 |
| Less accumulated depreciation for: | | | | |
| Buildings and Building Improvements | (932,364) | (78,944) | - | (1,011,308) |
| Improvements other than buildings | (65,576) | (6,338) | - | (71,914) |
| Infrastructure | (802,308) | (677,166) | - | (1,479,474) |
| Machinery and equipment | (967,305) | (146,747) | - | (1,114,052) |
| Total accumulated depreciation | (2,767,554) | (909,194) | - | (3,676,748) |
| Total capital assets being depreciated, net | 13,386,627 | 53,080,094 | - | 66,466,721 |
| Business Type activities capital assets, net | 58,540,350 | 56,012,279 | (42,998,286) | 71,554,344 |

| | | |
|---|---|---|
| Governmental activities: | | |
| | General Government | $ 378,683 |
| | Finance | 3,478 |
| | Police | 443,589 |
| | Fire | 452,402 |
| | Public Works | 4,653,032 |
| | Parks and Recreation | 981,206 |
| | Planning | 36,960 |
| Total depreciation expense - governmental activities | | 6,949,351 |
| Business Type Activities: | | |
| | Water and wastewater | 453,796 |
| | Surface Water | 454,219 |
| | Missouri City Recreation & Leisure LG | 1,180 |
| Total depreciation expense - business type activities | | 909,194 |
| Total depreciation expense - all activities | | $ 7,858,545 |

Constructions in progress for the various projects and remaining commitments under these construction contracts as of June 30, 2012, are:

| Governmental Activities | Total in Progress | Remaining Commitment |
|---|---|---|
| El Dorado Bridge Replacement | $ 242,433 | $ 1,693,255 |
| Cangelosi Watershed Improvements | 60,365 | 88,513 |
| Mustang Bayou Watershed | 683,961 | 405 |
| Lower Oyster Creek | 193,541 | - |
| ERP System | 1,009,106 | 695,686 |
| Recreation & Tennis Center | 5,454,742 | 314,015 |
| City Centre at Quail Valley & Pro Shop | 8,726,841 | 1,134,710 |
| Fire Station #5 | 56,955 | 164,656 |
| Animal Shelter | 58,630 | 621,253 |
| Thompson Ferry Realignment | 58,398 | 20,847 |
| Hurricane Lane Extension | 323,437 | 148,161 |
| Vicksburg Extension | 202,896 | 8,246 |
| Intelligent Transportation System | 893,594 | 35,760 |
| Sienna Plantation Management District | 1,241,287 | - |
| Remaining Commitments Less Than $50,000 | 216,196 | 502,398 |
| | $ 19,422,382 | $ 5,427,905 |

| Business-type Activities | | |
|---|---|---|
| Mustang Bayou Water Plant 0.9 MGD | 182,685 | 205,884 |
| Sienna N Conversion to Steepbank Flatbank | 146,000 | 88,500 |
| Steepbank Flatbank Wastewater Treatment Plant 6 MGD | 6,512 | - |
| | $ 335,197 | $ 294,384 |

## NOTE 8 - LONG-TERM DEBT AND OTHER LONG-TERM OBLIGATIONS

The City issues general obligation bonds and certificates of obligation for the purpose of fulfilling its capital improvements programs. General obligation bonds and certificates of obligation are for both governmental and business-type activities. The bonds are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general long-term bonds, certificates of obligation and assumed obligations are paid through the Debt Service Fund from tax revenues. Generally these programs are classified in several broad areas: public safety, drainage, transportation, parks, facilities and utility construction.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The following is a summary of general obligation bonds, certificates of obligation and tax notes outstanding as of June 30, 2012:

| Series | Original Issue | Matures | Interest Rate (%) | Debt Outstanding |
|---|---|---|---|---|
| **Governmental Activities:** | | | | |
| **General Obligation Bonds** | | | | |
| Series 2004 permanent improvement bonds | $7,970,000 | 2024 | 4.3 - 5.0 | $5,500,000 |
| Series 2005 permanent improvement bonds | 5,440,000 | 2026 | 3.7 - 5.0 | 4,275,000 |
| Series 2007 permanent improvement bonds | 9,910,000 | 2027 | 3.75 - 4.25 | 8,160,000 |
| Series 2008 permanent improvement bonds | 5,700,000 | 2028 | 4.0 - 4.5 | 4,960,000 |
| Series 2008A permanent improvement bonds | 21,085,000 | 2028 | 2.25 - 5.0 | 18,180,000 |
| Series 2009 refunding bonds | 7,570,000 | 2016 | 2.393-3.58 | 3,720,000 |
| Series 2010 permanent improvement bonds | 9,500,000 | 2029 | 3.0 - 4.125 | 8,720,000 |
| Series 2010 refunding bonds | 4,755,000 | 2018 | 4.1 - 4.25 | 3,790,000 |
| Series 2010A permanent improvement bonds | 9,405,000 | 2038 | 2.00 - 4.00 | 8,930,000 |
| **Total General Obligation Bonds** | | | | $66,235,000 |
| **Certificates of Obligation** | | | | |
| Series 2004 certificates of obligation | $1,500,000 | 2024 | 4.3 - 5.0 | 1,045,000 |
| Series 2005 certificates of obligation | 3,600,000 | 2026 | 3.25 - 5.25 | 3,313,787 |
| Series 2008 certificates of obligation | 2,395,000 | 2028 | 3.5 - 4.5 | 2,085,000 |
| Series 2008A certificates of obligation | 6,044,440 | 2029 | 2.75 - 5.0 | 5,746,699 |
| Series 2009A certificates of obligation | 5,630,000 | 2038 | 4.7 - 5.125 | 5,590,000 |
| Series 2009C certificates of obligation | 5,260,000 | 2028 | 3.0 - 4.125 | 4,425,000 |
| Series 2010A certificates of obligation | 6,235,000 | 2038 | 2.00 - 4.00 | 6,040,000 |
| Series 2010B certificates of obligation | 1,660,000 | 2021 | .964 - 3.876 | 1,395,000 |
| **Total Certificates of Obligation** | | | | 29,640,486 |
| **Increment Contract Revenue Bonds** | | | | |
| Series 2006 increment revenue bonds | 6,540,000 | 2027 | 4.0 - 4.625 | 5,365,000 |
| **Total Increment Contract Revenue Bonds** | | | | 5,365,000 |
| **Tax Notes** | | | | |
| Series 2011 tax notes | 1,730,000 | 2018 | 1.65 | 1,575,000 |
| **Total Tax Notes** | | | | 1,575,000 |
| **Total Governmental Activities** | | | | $102,815,486 |
| **Business-type Activities:** | | | | |
| **Certificates of Obligation** | | | | |
| Series 2005 certificates of obligation | $735,000 | 2026 | 3.25 - 4.25 | 626,214 |
| Series 2008A certificates of obligation | 8,470,560 | 2029 | 2.75 - 5.0 | 8,053,300 |
| Series 2009B certificates of obligation | 46,595,000 | 2035 | 2.0 - 5.0 | 45,445,000 |
| **Total Business-type Activities** | | | | $54,124,514 |

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The annual requirements to amortize all general obligation bonds outstanding as of June 30, 2012, are as follows:

| Year Ending June 30, | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2013 | 4,605,000 | 2,616,631 |
| 2014 | 4,740,000 | 2,464,881 |
| 2015 | 4,195,000 | 2,308,269 |
| 2016 | 4,335,000 | 2,160,349 |
| 2017 - 2021 | 19,260,000 | 8,561,014 |
| 2022 - 2026 | 20,100,000 | 4,569,720 |
| 2027 - 2031 | 9,000,000 | 764,765 |
| | $66,235,000 | $23,445,629 |

The annual requirements to amortize all certificates of obligation outstanding as of June 30, 2012, are as follows:

| Year Ending | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest |
| 2013 | $1,111,680 | $1,134,465 | $1,523,320 | $2,340,888 |
| 2014 | 1,168,118 | 1,101,223 | 1,561,882 | 2,309,613 |
| 2015 | 1,127,474 | 1,065,763 | 1,627,526 | 2,254,043 |
| 2016 | 1,183,912 | 1,030,588 | 1,696,088 | 2,194,985 |
| 2017 - 2021 | 6,841,133 | 4,534,645 | 9,618,867 | 10,003,665 |
| 2022 - 2026 | 8,361,655 | 3,192,782 | 12,168,345 | 7,799,256 |
| 2027 - 2031 | 5,551,515 | 1,621,084 | 14,193,485 | 5,007,306 |
| 2032 - 2036 | 3,040,000 | 737,027 | 11,735,000 | 1,502,250 |
| 2037 - 2038 | 1,255,000 | 88,924 | 0 | 0 |
| | $29,640,486 | $14,506,501 | $54,124,514 | $33,412,006 |

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The annual requirements to amortize all increment revenue bonds outstanding as of June 30, 2012, are as follows:

| Year Ending June 30, | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2013 | $265,000 | $245,580 |
| 2014 | 275,000 | 235,380 |
| 2015 | 285,000 | 224,780 |
| 2016 | 295,000 | 213,505 |
| 2017 - 2021 | 1,685,000 | 877,021 |
| 2022 - 2026 | 2,085,000 | 491,806 |
| 2027 - 2031 | 475,000 | 64,981 |
| | $5,365,000 | $2,353,054 |

The annual requirements to amortize all tax notes outstanding as of June 30, 2012, are as follows:

| Year Ending June 30, | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2013 | $250,000 | $25,988 |
| 2014 | 255,000 | 21,863 |
| 2015 | 260,000 | 17,655 |
| 2016 | 265,000 | 13,365 |
| 2017 - 2021 | 545,000 | 13,530 |
| | $1,575,000 | $92,400 |

There is $6,704,909 available in the Debt Service Fund to service the above obligations.

The principal and interest on the general obligation bonds, certificates of obligation, increment revenue bonds, and tax notes are payable solely from property taxes levied on taxable property within the City of Missouri City, Texas. The City is in compliance with all significant limitations and restrictions contained in the various bond ordinances.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

## Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2012, is as follows:

| | Balance July 1, 2011 | Additions | Reductions | Balance June 30, 2012 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 71,425,000 | | $ (5,190,000) | $ 66,235,000 | $ 4,605,000 |
| Certificates of obligation | 30,602,810 | | (962,324) | 29,640,486 | 1,111,680 |
| Increment Revenue Bonds | 5,620,000 | | (255,000) | 5,365,000 | 265,000 |
| Tax Notes | | 1,730,000 | (155,000) | 1,575,000 | 250,000 |
| Plus: | | | | | |
| Issuance premiums | 919,870 | 29,098 | (41,223) | 907,745 | |
| Total bonds payable | 108,567,680 | 1,759,098 | (6,603,547) | 103,723,231 | 6,231,680 |
| Compensated absences | 1,190,789 | 1,176,874 | (1,076,613) | 1,291,050 | 208,026 |
| Net Pension Obligation | 1,275,025 | 456,343 | | 1,731,368 | |
| OPEB Obligation | 504,391 | 184,384 | | 688,775 | |
| **Total Governmental Activities** | 111,537,885 | 3,576,699 | (7,680,160) | 107,434,424 | 6,439,706 |
| **Business-type Activities:** | | | | | |
| Certificates of obligation | 55,582,190 | | (1,457,677) | 54,124,513 | 1,523,320 |
| Plus: | | | | | |
| Issuance premiums | 2,882,572 | | (115,303) | 2,767,269 | |
| **Total Business-type Activities** | $ 58,464,762 | $ | $ (1,572,980) | $ 56,891,782 | $ 1,523,320 |

## Subsequent Issuances

On November 1, 2012, the City issued $1,400,000, in General Obligation Bonds, Series 2012. The proceeds from this issue will be used for certain drainage improvements. The estimated interest rate on the notes will be 3.75% and the maturity date will be 2015.

## Federal Tax Compliance (Arbitrage) for Long-term Debt

In accordance with provisions of Section 148 of the Internal Revenue Code of 1986, as amended (the “Code”), the City’s long-term debt obligations must meet certain minimum criteria to be considered and continue to be considered “tax exempt.” This “tax exempt” status means that interest income earned by purchasers of the City’s long-term debt instruments is not subject to federal income taxes. Related Treasury Regulations promulgated under Section 148 of the Code generally provide that the determination of whether these obligations are tax exempt is made as of the date such obligations are issued based on a reasonable expectations regarding the use of the proceeds of the bonds issued. Long-term debt that does not meet and continue to meet the minimum criteria of Section 148 of the Code and the related Treasury Regulations described above are considered "arbitrage bonds" and are not considered "tax exempt" as described above.

**Rebate**

Obligations will become arbitrage bonds (as described above) if certain arbitrage profits are not paid to the federal government as rebate under section 148(f) of the Code. The City's obligations to calculate and make rebate payments (if any) will continue as long as there are gross proceeds allocable to outstanding debt issues. The City has performed calculations required under section 148(f) of the Code and has no present liability nor has the City ever been required to make rebate payments for issued debt in past years.

**Unexpended Debt Issuance Proceeds (Yield Restriction Requirements)**

Section 148 of the Code also provides that in order for debt not to be considered arbitrage bonds (as described), proceeds of such debt must be invested at a yield that is not materially higher than the yield on the debt issued starting on the third anniversary of the issue date of such debt. Accordingly, any unexpended proceeds of debt issued by the City that remain unexpended more than three years after such debt was issued should be yield restricted. The yield restriction may be accomplished by making yield reduction payments pursuant to Treas. Reg. Section 1.148-5(c). The City presently has unexpended proceeds from certain debt issues that require yield restriction as described above. The City is currently in compliance with these yield restriction requirements and does not anticipate associated significant noncompliance issues. The City is continuing to proceed with reasonable diligence to expend any remaining unexpended debt issuance proceeds on qualifying projects or to retire related debt issues still outstanding.

## NOTE 9 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of interfund balances as of June 30, 2012:

| Due to Fund | Due From Fund | Purpose | Amount |
|---|---|---|---|
| General | Missouri City Recreation and Leisure LGC | Loan for unreimbursed expenses | $5,997 |
| General | Fleet Maintenance Fund | Cash loan for expenses | 96,885 |
| General | Solid Waste Collection Fund | Cash loan for expenses | 169,051 |
| General | Information Tech. Maintenance Fund | Cash loan for expenses | 9,448 |
| Fleet Maintenance Fund | Fleet Replacement Fund | Cash loan for expenses | 8,200 |
| Information Tech. Maintenance Fund | Information Tech. Replacement Fund | Cash loan for expenses | 238,149 |
| Bond Fund | Building Maintenance Fund | Cash loan for expenses | 1,079 |
| | | | $528,809 |

Amounts booked as due to/from are considered to be temporary loans and will be repaid during the following fiscal year.

For the year ended June 30, 2012, interfund transfers consisted of the following:

| Transfers in Fund | Transfers out Fund | Purpose | Amount |
|---|---|---|---|
| General | Court Juvenile Case Fund | Juvenile Case Manager payroll expenses | $ 44,300 |
| General | Missouri City Development Authority | TIRZ and PID expenses | 100,000 |
| General | TIRZ #1 | Administrative fees | 20,895 |
| General | TIRZ #2 | Administrative fees | 31,154 |
| General | TIRZ #3 | Administrative fees | 14,655 |
| General | Metro Fund | Mobility cost expenses | 800,000 |
| General | Surface Water Treatment Fund | GRP admin fees, GCWA water option fees, and misc. fees. | 150,000 |
| Missouri City Development Authority | TIRZ #1 | TIRZ expenses | 20,000 |
| Missouri City Development Authority | TIRZ #2 | TIRZ expenses | 20,000 |
| Missouri City Development Authority | PID #2 | PID expenses | 20,000 |
| Missouri City Development Authority | TIRZ #3 | TIRZ expenses | 20,000 |
| Missouri City Development Authority | PID #4 | PID expenses | 20,000 |
| Debt Service Fund | Water/Wastewater Utility Fund | Certificate of Obligation interest payments. | 310,124 |
| | | | **$ 1,571,128** |

Transfers are used to move revenues from the fund with collection authorization to other funds that finance various programs in accordance with budgetary authorizations.

## NOTE 10 - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The plan’s trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the plan and makes investment decisions and disburses funds to employees in accordance with plan provisions.

The fair value of plan assets held and administered by the plan’s third-party administrator were $7,870,044.

## NOTE 11 - PENSION PLAN

### Plan Description:

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RS) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system.

This report may be obtained by writing to TMRS, P.O. Box 149153, Austin, TX 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

| | Plan Year 2010 | Plan Year 2011 | Plan Year 2012 |
|---|---|---|---|
| Employee deposit rate | 7.0% | 7.0% | 7.0% |
| Matching ratio (city to employee) | 2 to 1 | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 | 5 |
| Service retirement eligibility (expressed as age/years of service) | 60/5, 0/20 | 60/5, 0/20 | 60/5, 0/20 |
| Updated Service Credit | 100% Repeating, Transfers | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity Increase (to retirees) | 70% of CPI Repeating | 70% of CPI Repeating | 70% of CPI Repeating |

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

**Contributions:**

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

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

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

| | 6/30/10 | 6/30/11 | 6/30/12 |
|---|---|---|---|
| 1. Annual Required Contribution (ARC) | $2,833,342 | $2,882,292 | $2,778,949 |
| 2. Interest on Net Pension Obligation | 17,965 | 64,943 | 105,966 |
| 3. Adjustment to the ARC | (14,626) | (53,733) | (51,398) |
| 4. Annual Pension Cost (APC) | 2,836,681 | 2,893,502 | 2,833,517 |
| 5. Contributions Made | 2,210,306 | 2,346,528 | 2,515,034 |
| 6. Increase (decrease) in net pension obligation | 626,375 | 546,974 | 318,483 |
| 7. Net Pension Obligation/(Asset), beginning of year | 239,536 | 865,911 | 1,412,885 |
| 8. Net Pension Obligation/(Asset), end of year | $865,911 | $1,412,885 | $1,731,368 |
| 9. Percentage of APC contributed. | 78% | 81% | 89% |

The City's total payroll in fiscal year 2012 was $16.9 million and the City's contributions were based on a payroll of $16.4 million. Contributions made by employees totaled $1.2 million during the fiscal year ended June 30, 2012.

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2007 and 2008 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, is as follows:

| Valuation Date | 12/31/2009 | 12/31/2010 | 12/31/2011 |
|---|---|---|---|
| Actuarial Cost Method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization Method | Level Percent of Payroll | Level Percent of Payroll | Level Percent of Payroll |
| GASB 25 Equivalent Single Amortization Period | 28 years; closed period | 27 years; closed period | 26 years; closed period |
| Amortization Period for new Gains/Losses | 30 years | 30 years | 30 years |
| Asset Valuation method | 10-year Smoothed Market | 10-year Smoothed Market | 10-year Smoothed Market |
| Actuarial Assumptions: | | | |
| Investment Rate of Return | 7.50% | 7.50% | 7.50% |
| Projected Salary Increases | Varies by age and service | Varies by age and service | Varies by age and service |
| | | | |
| # Includes Inflation at | 3.00% | 3.00% | 3.00% |
| Cost-of-Living Adjustments | 2.10% | 2.10% | 2.10% |

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

In order to provide a reasonable retirement benefit at a reasonable cost to employers and to provide better long-range rate forecasts, TMRS' actual funding method is the Projected Unit Credit method using a 25-30 year "closed" period.

A schedule of funding status and progress for TMRS for the most recent valuation date follows:

| Actuarial Valuation Date as of December 31 | Actuarial Value of Assets (1) | Actuarial Accrued Liability (AAL) (2) | Percentage Funded (1/2) (3) | Unfunded Actuarial Accrued Liability (UAAL) (2-1) (4) | Annual Covered Payroll (5) | (UAAL) as a Percentage of Covered Payroll (4/5) (6) |
|---|---|---|---|---|---|---|
| 2011 | $72,995,245 | $69,162,522 | 105.5% | -$3,832,723 | $16,327,276 | -23.5% |

A schedule of funding progress for TMRS for the three most recent actuarial valuations may be found in the required supplementary information section of the City's Annual Financial Report.

## NOTE 12 - RISK MANAGEMENT

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. The City's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League (TML-IRP), an Intergovernmental Risk-Pool and through commercial insurance carriers. The City purchases commercial general insurance through the Texas Municipal League, an unincorporated association of political subdivisions of the State of Texas. This policy encompasses general liability, incidental, medical malpractice, automobile liability, law enforcement liability, errors and omissions liability, property, automobile vehicle liability, and damages with limits of liability for each occurrence at $3,000,000. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The participation of the City in the TML-IRP is limited to payment of premiums.

### Workers' Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivisions of the State of Texas. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool. The City's liability is limited to payment of premiums as assessed by TML.

The City pays unemployment insurance claims filed by former employees on an actual reimbursement basis. The Texas Workforce Commission determines individual claim eligibility and bills the City for each eligible claim made. The City contracts with a third party, TALX Employer Services L.L.C., to administer its unemployment insurance/compensation program.

**Long-Term Disability**

The City provides long-term disability coverage for all full-time employees through Fort Dearborn Life Insurance Company. The City pays the entire amount of the premiums. After a 90-day waiting period, employees who become disabled though injury or sickness may receive 66-2/3 percent of basic monthly earnings, not to exceed maximum benefit less other income benefits.

**Health/Dental/Life Insurance Plan**

The City provides medical insurance, prescription card, dental, vision and life insurance programs for City employees. The City contracts with Blue Cross Blue Shield of Texas, which offers a H.S.A. high deductible medical plan and a P.P.O. medical plan for employees to choose from. The City also provides life insurance equal the employee's salary to a maximum of $50,000 through Fort Dearborn Life Insurance Company.

## NOTE 13 - COMMITMENTS AND CONTINGENCIES

**Sick Leave**

Employees are credited with sick leave at the rate of one day per month with no maximum accumulation, one-half of which is set aside for major illness each year. Regular sick days may be used for ordinary sick days, caring for relatives, and doctor's appointments. Unused sick leave is credited to the major illness accumulation at the end of the year. Employees do not receive any pay or other compensation either for, or in lieu of, accrued sick leave time upon any type of employment termination except for retirement. Upon meeting retirement qualifications and retiring from the City, employees will be paid 25 percent of accumulated major illness sick leave exceeding sixty days up to a total of thirty days.

The unrecorded contingency associated with all accumulated sick leave of City employees at June 30, 2012, is approximately $3,229,189.

## NOTE 14 - PARK LAND DEDICATION

The City enacted an ordinance requiring open space, park, and recreational areas, which is intended to assure that within residential developments of the City, there is sufficient land dedicated for open space and neighborhood parks. The City subsequently amended this ordinance providing for cash to be remitted in lieu of park land. Cash received shall be restricted to an area established by zone. Presently, the City has established twelve zones. Cash received by the City under this agreement must be expended within five years for the acquisition or development of a neighborhood park.

If not expended within the time frame established, the current owner of the property for which money was paid in lieu of land dedication shall be entitled to a refund providing a refund request is made within a one-year period. The activities of this program are accounted for in a special revenue fund.

## NOTE 15 - AGREEMENT WITH GULF COAST WATER AUTHORITY

On July 17, 1997, the City entered into an option agreement with Gulf Coast Water Authority (GCWA), a Texas conservation and reclamation district, to purchase surface water rights. The agreement allows the City the option to buy fifteen (15) million gallons per day of surface water from GCWA's canal system. The City paid for 18.53 million gallons per day adjusted yearly for the U.S. Department of Labor Utilities Index for Industries. The City has paid GCWA $2,465,401 cumulatively for water options through June 30, 2011.

Beginning in March 2009, the City exercised its option to purchase raw surface water and began paying for approximately 52,000 gallons a day through the Surface Water Treatment Plant This plant will be the key facilitator for the Ground Water Reduction Plan for the region.

## NOTE 16 - REGIONAL WASTEWATER TREATMENT FACILITIES

### Steep Bank/Flat Bank Service Area

In March 1996, the City contracted with First Colony Municipal Utility District No. 9 (MUD 9) and Fort Bend County Municipal Utility District No. 42 (MUD 42) to construct a regional wastewater system to include a regional lift station, major transmission line, first phase of a treatment plant, and disposal. The project was completed and began operation in December 1999 with a treatment capacity of 1.5 million gallons per day (MGD), more than initially needed by MUDs 9 and 42. Between 2000 and 2010, the City signed regional wastewater facilities agreements with Fort Bend County MUDs No. 46, 115, 129 and 149 to utilize the temporary excess capacity in the Phase I plant, and to secure permanent capacity for these MUDs in future plant expansions. Construction of the Phase II plant expansion from 1.5 to 3.0 MGD began in 2009 and came on line in late 2010. This included a second aeration basin and clarifier, headworks improvements and ultraviolet disinfection system upgrades and expansion. Final cost shares are based on pro rata capacity allocations. The current discharge permit provides for future expansion of the plant to interim Phase III 4.5 MGD and final Phase IV 6.0 MGD phase. Sienna North, which is currently served by a temporary wastewater treatment plant owned by Sienna Plantation MUD 1, will be served by the Steep Bank/Flat Bank Plant either in the existing Phase II or the future Phase III.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The City owns the plant and is responsible for its operation and maintenance. Under interlocal agreement between the City and Quail Valley Utility District, District staff performs the operation and maintenance. Each of the MUDs pays monthly charges for their share of operations and maintenance expenses, which includes funding an operations and maintenance reserve.

MUDs 9, 42, 46, 115, 129 and 149 and the City have agreed that each district shall initially have the right to deliver, subject to agreed terms and conditions, wastewater to the plant in the following capacities:

| District | Percent | Reserved Capacity (MGD) |
|---|---|---|
| First Colony MUD #9 | 44% | 1.500 |
| Fort Bend County MUD #42 | 20% | 0.670 |
| Fort Bend County MUD #115 | 12% | 0.401 |
| Fort Bend County MUD #46 | 9% | 0.316 |
| Fort Bend County MUD #129 | 14% | 0.484 |
| Fort Bend County MUD #149 | 2% | 0.055 |
| | 100% | 3.427 |

It is noted that MUD 9 and MUD 115 have purchased more capacity than needed and this capacity is being reassigned. The total assigned capacity will not exceed the permitted 3.0 MGD.

The City will provide funding for the expansion of the facility when needed and reserves the option to utilize package plants in the interim, if necessary, to provide services to all areas. The districts will pay their share of the debt service for expansion. The maintenance and operation of the plant will be prorated among the MUDs utilizing their average equivalent connections for the year.

**Mustang Bayou Service Area**

The Mustang Bayou Water Supply and Wastewater Treatment Service Area includes Fort Bend Municipal Utility Districts No. 47 and 48 (which serve the Vicksburg and Olympia Estates neighborhoods and Hightower High School), Tax Increment Reinvestment Zone No. 2 and Public Improvement Districts No. 2, 3 and 4. The area is attracting major retail and residential development as a result of the Fort Bend Toll Road, which opened in August 2004, connecting Highway 6 with Beltway 8. In 2004, the City and Fort Bend MUDs 47 and 48 executed a regional wastewater treatment and water supply agreement to provide integrated utility services to the area. The wastewater portion of that agreement was updated in 2010 when regional wastewater treatment facilities agreements between the City and MUDs 47 and 48 were executed. The water portion of the agreement was updated in 2011 with regional joint water facilities agreements between the City and MUDs 47 and 48 which are in the process of execution.

The City and the Vicksburg Joint Powers (MUDs 47 and 48) collectively constructed new wastewater facilities for the expansion of the Vicksburg Wastewater Treatment Plant (WWTP), located on the west side of the Toll Road, just north of Trammel-Fresno Road. The City now owns and operates the Vicksburg WWTP, and has since renamed the plant the Mustang Bayou Regional WWTP. The City's Mustang Bayou Regional WWTP provides treatment for the entire service area, including MUDs 47 and 48. This expansion was completed in December of 2009, and plant ownership transfer was completed in March of 2010.

Fort Bend MUDs 47 and 48 own and operate a water well and plant located in the north side of the Mustang Service Area. The City owns and operates a water well and plant in the south side of the service area, south of Highway 6 and east of the Fort Bend Toll Road. The City well and plant has increased water supply and improved water pressure available for fire flows for new and existing development. Under the 2011 water agreements, the ownership of the MUDs' water well and plant will be transferred to the City on January 1, 2012, and the two plants and will be permanently interconnected to jointly supply the entire service area.

The City projected a need for a water/wastewater master plan, capital improvement plan and an impact fee study as the City and the utility districts (MUDs 47, 48 and Vicksburg Joint Powers) proceed with coordination on utility service issues in the Mustang Bayou Service Area. This study is currently underway and will provide technical and financial information for the City to properly administer and provide utility service in the area.

## NOTE 17 – DEVELOPMENT AGREEMENTS

### Agreement with Sienna Plantation

In past years, it was the policy of City Council that before a reclamation district, water control improvement district or municipal utility district could be created, the landowners in the City's extra-territorial jurisdiction must petition for annexation into the City. As a result, the City approved the creation of several separate municipal districts in past years.

In 1995-96, the City began development of a regional water, sewer and storm drainage plan to determine future demands for water, sewer and storm drainage facilities for the entire City including these districts. With the City approximately one-third built, not including the City's extra-territorial jurisdiction, this was a good time to initiate the change. In conjunction with this, a Municipal Utility District Study was performed to assure that Regionalization versus separate MUDs was feasible.

As a result, the City determined to leave the existing districts in place at this time and review their Regionalization needs on an individual basis, when the need to sell new debt or expand the plant took place. For the rest of the City, the City is seeking Regionalization by requiring MUDs to go to a regionalized plant, and to develop contracts for Regionalization with existing MUDs. The Quail Valley MUD is a good example of this Regionalization effort.

In other areas, Public Improvement Districts are being formed to take care of the water, sewer, drainage and other needed improvements.

In 1995-96, several developers of Sienna Plantation, a 12,000-acre master planned community in the City's extraterritorial jurisdiction approached the City Council to allow development by agreement. As a result, a development agreement was proposed allowing development to take place outside the City limits.

The developers in Sienna Plantation entered into the Sienna Plantation Joint Development Agreement with the City of Missouri City (the "City") dated February 19, 1996, as amended (collectively, the "Development Agreement"), which stipulates the City's regulatory authority over the development of Sienna Plantation. The Development Agreement establishes certain restrictions and commitments related to the development of Sienna Plantation, sets forth detailed design and construction standards, stipulates a formula for determining the time of annexation of land within Sienna Plantation by the City, and identifies and establishes a master plan for the development of Sienna Plantation. The provisions of the Development Agreement govern the development of all land within Sienna Plantation.

In the Development Agreement, the City agrees not to annex the property in any district before such time as (i) at least 90 percent of the developable acreage within such district has been developed with water, wastewater treatment, and drainage facilities; and (ii) the Developer has been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement. The area is expected to add approximately 60,000 to the population of the City.

**Wastewater Treatment Service Contract**

In the fall of 2005, the City executed the First Supplement to the Fire Protection Agreement with Sienna Municipal Utility District (MUD) No. 1 for the purposes of outlining each entity's responsibility in the construction of a fifth fire station. Said station is to be located in Sienna Plantation. The agreement stipulates that once a certain number of homes within Sienna proper have been constructed, the City is then obligated to commence design of the fire station.

The district (MUD No. 1) is obligated to contribute toward the cost of the fire station comparable to the City's Fire Station No. 4, as well as the cost of an additional fire engine to be housed at the new station. Furthermore, the district is to fund the operational costs of the fifth fire station, as its primary service area will be serving Sienna proper, which is located outside the City's corporate limits.

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

**Contract with Sienna Plantation Municipal Utility District No. 1 (Master District)**

The District, together with each conservation and reclamation district located within Sienna Plantation District, has contracted with Sienna Plantation Municipal Utility District No. 1 (the "Master District") to provide water supply and distribution, sewage collection and treatment services, major trunk storm sewer drain services, fire protection, and other services and facilities permitted by law for the entire Sienna Plantation development. The District has incurred, or incurs, the following expenditures with respect to this contract:

- the District's prorated share of the Master District's capital cost (connection charges) of which future costs will be capitalized by the District; and,
- monthly connection charges in an amount sufficient to meet the District's prorated share of the operational and maintenance costs of the central facilities, based on the relevant use of such facilities.

**Fire Protection Agreements between City and Sienna Plantation MUDs**

Fire Protection agreements have been entered into between the City and various Municipal Utility Districts as follows:

March 19, 2001 Sienna Plantation Municipal Utility District 1
March 19, 2001 Sienna Plantation Municipal Utility District 2
March 19, 2001 Sienna Plantation Municipal Utility District 3
January 3, 2005 Sienna Plantation Municipal Utility District 4
January 3, 2005 Sienna Plantation Municipal Utility District 5
January 3, 2005 Sienna Plantation Municipal Utility District 6
January 3, 2005 Sienna Plantation Municipal Utility District 7
February 21, 2005 Sienna Plantation Municipal Utility District 10
February 21, 2005 Sienna Plantation Municipal Utility District 12

Each of these districts are outside the City's corporate limits, but within its extraterritorial jurisdiction. The agreements are to provide fire suppression and rescue services. The MUD districts agree to pay the City a monthly charge for each residential unit in the districts connected to the public water supply on or before the twentieth day of the preceding month. For non-residential properties, the districts agree to pay a monthly charge per 2,000 square feet of building floor space.

## NewQuest Properties Economic 380 Agreement - Fort Bend Town Center

The Fort Bend Town Center is proposed commercial development located along both sides of the future extension of the Fort Bend Parkway south of State Highway 6. This particular property lacks some major infrastructure needed for development. As an incentive to have it develop sooner rather than later, the City executed an economic development agreement, reimbursing the developer for some of their cost incurred in developing the site. The total amount of the project is $7,007,548.

As part of this development, the developer, with the City's assistance has been successful in working out an agreement to extend service lanes for the future Fort Bend Parkway south of its current terminus. Such an extension will be a critical component in encouraging the next phase of the parkway to Sienna Parkway to take place sooner and ultimately improve traffic circulation in the Sienna North area. As an added bonus, the Fort Bend Toll Road Authority has agreed to reimburse the cost incurred for a portion of the extension, once bonds are sold. To date, the amount total amount of sales tax reimbursements are $149,588.

Interest on the reimbursement is capped at two (2) years.

## Trammell Crow Development & Investment, Inc. Economic 380 Agreement - Lakeview Business Park

Lakeview Business Park is a commercial park located at the intersection of Buffalo Run and Fondren Road, on the south side of Buffalo Run. The business park is the largest of its type undertaken by Trammel Crow Development & Investment, Inc. in the Houston area. In an effort to make the development more competitive, the City executed an economic development agreement, reimbursing the developer for costs incurred in the installation of a public roadway and storm sewer system. The park will be developed in two phases, with Phase I consisting mainly of the eastern half of the property. The following is the reimbursement schedule for both phases:

Phase I

- The roadway and drainage improvements for Phase I have been completed and accepted by the City. The City has reimbursed Trammel Crow for two of the three annual payments as outlined in the development agreement.
- The developer constructed spec buildings simultaneously with the installation of Phase I public improvements.

Phase II

- Upon completion and acceptance by the City of the remaining roadway and drainage improvements, the City would reimburse Trammel Crow in three equal annual payments, if and only if, the taxable value of the park exceeded $50 million.

Projected ad valorem tax revenue to be realized by the City is an estimated $7.2 million over the first ten years of the project.

**Reinvestment Zone Number Three Agreement – Sienna Plantation Management District (SPMD)**

Reinvestment Zone Number Three, located within the city limits near the intersection of State Highway 6 and Sienna Parkway, was created as a funding source for public infrastructure improvements that will significantly enhance the value of all the taxable real property in the Zone and will be of general benefit to the City. The Zone, when created, contained substantial areas that are predominantly open and underdeveloped, and had lack public roadway, water distribution, wastewater collection and storm drainage facilities.

The total cost of the project is $46 million which includes new roadway construction ($15.9 million) throughout the Zone including the Fort Bend Parkway Tollroad Corridor feeder road, various roadway and intersection improvements ($8.55 million), a structured parking garage ($6.75 million), decorative signage, landscaping, and enhancements ($6 million), Houston Community College educational facilities ($6.9 million), and zone administrative costs ($1.9 million).

The reimbursements will be based on the increase in taxable value of real property within the Zone and 50% of the total amount of Metro Tax generated from the District. As of June 30, 2012, no reimbursements from the Metro tax have been made.

## NOTE 18 - REIMBURSEMENTS DUE TO CITY AND DEVELOPERS

The City has entered into agreements with developers and newly created governmental entities for purposes of developing areas that otherwise would not be developed. The planned resources for these developments are property tax increments in established zones within the City. Currently, the City's financial statements include two Tax Increment Reinvestment Zones (Zones 1 and 2) as blended component units along with a Development Authority created for these purposes. On July 20, 2006, the Missouri City Development Authority issued tax increment contract revenue bonds in the amount of $6,540,000, the proceeds of which were used to reimburse certain developer costs relating to land development within TIRZ #1. The interest rates on the bonds ranged from 4.0 – 4.625 percent and mature in 2027. The City expects approximately $1.6 million will be spent in the upcoming fiscal year for development activities within Zone 2.

The City has also worked with area developers in the creation of Public Improvement Districts (PIDs) for development purposes that will use property assessments within their boundaries to create additional resources for development purposes. Costs associated with the PIDs' creation have been included in the Public Improvement District #2 and #4 Funds. The City expects approximately $5.3 million will be spent in the upcoming fiscal year for development activities within Districts 2 and 4.

The City and developers have pre-funded certain creation costs for these entities and expect reimbursement of these costs in the future, once development has taken place and property values are at a level that will create the resources for repayment of these costs. The reimbursements will include interest at agreed-upon rates at the time the reimbursements are calculated and made.

In addition, the City has pre-funded capital costs for a regional wastewater treatment plant. These pre-funded costs have included over-sizing of sewer lines funded by the proceeds of City issued certificates of obligation (see Note 16). The City has also pre-funded additional costs from operating funds related to the over-sizing and engineering costs related to plant expansion for new users. These pre-funded costs are expected to be paid back as new or existing customers pay for capacity in the current and expanded plant.

The City plans to receive interest on these pre-funded costs at the time of reimbursement at agreed-upon rates at the time the reimbursements are calculated and made.

The amounts currently due to the City and developers by project and excluding interest costs at June 30, 2012, are shown below. These amounts do not include the over-sizing costs funded through City-issued certificates of obligation discussed in Note 16.

| | Public Improvement Districts | Tax Incremental Reinvestment Zones | Totals |
|---|---|---|---|
| City | $ 209,997 | $ 5,169,759 | $ 5,379,756 |
| Developers | 51,512 | 146,044 | 197,556 |
| | $ 261,509 | $ 5,315,803 | $ 5,577,312 |

## NOTE 19 - AGREEMENT WITH HARRIS COUNTY METROPOLITAN TRANSIT AUTHORITY

The City entered into a Congestion Mitigation/Traffic Management Agreement with the Harris County Metropolitan Transit Authority (METRO) to address ongoing mobility needs through the further development of regional transportation systems. Under this agreement, METRO will make payments to the City to fund eligible transportation projects as defined in the agreement. The agreement is effective through September 30, 2014. These payments will generally be limited to one-half (1/2) of all METRO sales tax collections within the City during the agreement. These payments will be in addition to payments for previously approved METRO projects within the City. The City received approximately $2.6 million pursuant to this agreement for eligible transportation projects in the current fiscal year.

## NOTE 20 - OTHER POST-EMPLOYMENT BENEFITS

*Plan Description* - In addition to pension benefits, it has been the City's practice that retired employees who were at least sixty-five years of age at the time of retirement from the City and who have had at least ten years of service with the City would be provided medical, dental, and vision insurance coverage by the City to the extent and subject to the conditions of such coverage that is provided to non-retired employees of the City. Similarly, employees who become disabled, while on duty, may also be eligible for insurance or similar retirement benefits from the City. The dependents of these individuals may also be eligible to access the City's insurance plan. The City contracts with Blue Cross Blue Shield of Texas, which offers a H.S.A. high deductible medical plan and a P.P.O. medical plan for employees to choose from. The City funds premiums to its health insurance plan for eligible retirees in the same manner as it funds similar premiums for current employees on a pay-as-you-go basis.

*Actuarial Methods and Assumptions* - The Projected Unit Credit actuarial cost method is used to calculate the GASB ARC for the City's retiree heath care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computer to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to the point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

*Actuarial Methods and Assumptions*

| | |
|---|---|
| Inflation rate | 3% per annum |
| Investment rate of return | 4.50%, net of expenses |
| Actuarial cost method | Projected Unit Credit Cost Method |
| Amortization method | Level as a percentage of employee payroll |
| Amortization period | 30-year open amortization |
| Salary Growth | 3% per annum |
| Healthcare cost trend rate | Initial rate of 8.5% in 2012 declining to an ultimate rate of 4.50% after 8 years |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Under the reporting parameters, they City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by $3,265,249 at December 31, 2011. As of the most recent valuation, the ratio of the unfunded actuarial accrued liability to annual covered payroll is 19.6%.

| Actuarial Valuation Date December 31 | Actuarial Value of Assets (a) | Actuarial Accrued Liabilities (AAL) (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll | Ratio of UAAL to Annual Covered Payroll |
|---|---|---|---|---|---|---|
| 2011 | - | $3,265,249 | $3,265,249 | 0% | $16,642,341 | 19.6% |

*Funding Policy* - The contribution requirements of plan members and the City are established and may be amended by the City's executive branch. The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The City contributed approximately $116,353 for the fiscal year ending June 30, 2012. At June 30, 2012, there were approximately 12 participants eligible to receive such benefits.

Commencing in fiscal 2009, the City has implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."

The City's annual other post employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The annual OPEB cost for the fiscal year ending June 30, 2012, is as follows:

| | 6/30/10 | 6/30/11 | 6/30/12 |
|---|---|---|---|
| Annual required contribution | $437,301 | $112,829 | $299,068 |
| Interest on OPEB obligation | 5,976 | 21,426 | 22,352 |
| Adjustment to ARC | (3,474) | (12,457) | (12,996) |
| Annual OPEB cost (expense) end of year | 439,803 | 121,798 | 308,424 |
| Net estimated employer contributions | (96,468) | (101,218) | (116,353) |
| Increase in net OPEB obligation | 343,335 | 20,580 | 192,071 |
| Net OPEB obligation - as of beginning of the year | 132,789 | 476,124 | 496,704 |
| Net OPEB obligation (asset) - as of end of year | $476,124 | $496,704 | $688,775 |
| | | | |
| Percentage of OPEB Costs Contributed | 22% | 83% | 38% |

**City of Missouri City, Texas**
**NOTES TO FINANCIAL STATEMENTS**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending June 30, 2012 and the preceding two fiscal years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Employer Amount Contributed | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| 6/30/2010 | $442,613 | $96,468 | 21.8% | $478,934 |
| 6/30/2011 | $126,675 | $101,218 | 79.9% | $504,391 |
| 6/30/2012 | $300,737 | $116,353 | 38.7% | $688,775 |

**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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__________, 2013

City of Missouri City
1522 Texas Parkway
Missouri City, Texas 77480

Re: City of Missouri City, Texas, General Obligation Refunding Bonds, Series 2013

Ladies and Gentlemen:

WE HAVE ACTED as bond counsel for the CITY OF MISSOURI CITY, TEXAS (the “City”), in connection with an issue of Bonds described as follows:

> CITY OF MISSOURI CITY, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013 (the "Bonds"), in the aggregate original principal amount of $8,730,000; issuable in fully registered form only, in denominations, dated the date, bearing interest, maturing in the years and amounts, and transferable and exchangeable as set out in the Bonds and in the Ordinance ("Ordinance") adopted by the City Council of Missouri City, Texas authorizing their issuance.

WE HAVE ACTED as 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 status of the interest on the Bonds under federal income tax law. In such capacity we have examined relevant provisions of the Constitution and laws of the State of Texas and of federal income tax law; a transcript of certain certified proceedings pertaining to the issuance of the Bonds; certain certifications and representations concerning the use of proceeds of the Bonds, the use of other funds of the City, and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds, including executed Bonds. We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds.

BASED ON SUCH EXAMINATION, it is our opinion that:

(1) the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds are valid and legally binding Bonds of the City in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Bonds have been authorized in accordance with law; the Bonds and any additional Bonds hereafter issued on a parity therewith are payable from and are secured solely by a limited pledge of ad valorem taxes received; and

(2) Ad valorem taxes, within the limit prescribed by law, upon all taxable property within the City, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably for such purpose, and, solely to permit the sale of the Bonds for cash.

IT IS OUR FURTHER OPINION that:

(1) Interest on the Bonds is excludable from gross income for federal income tax purposes under existing law.

(2) The Bonds are not "private activity Bonds" within the meaning of the Internal Revenue code of 1986, as amended (the "Code"), and interest on the Bonds is not subject to the alternative minimum tax on individuals and corporations, except that interest on the Bonds will be included in the "adjusted current earnings" of a corporation (other than an S corporation, regulated investment company, REIT or REMIC) for purposes of computing its alternative minimum tax.

In providing such opinions, we have relied on representations of the City, the City's Financial Advisor, and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City's Financial Advisor, and the Initial Purchaser, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants of the City in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the City fails to comply with the foregoing covenants in 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 Bonds 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 Bonds, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Bonds).

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

Yours very truly,