(See "Continuing Disclosure of Information" herein)

Ratings:
S&P: "A+"
Fitch: "AA-"
(See "OTHER INFORMATION – Ratings" herein)

OFFICIAL STATEMENT

Dated January 20, 2015

NEW ISSUE - Book-Entry-Only

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

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

$15,355,000
CITY OF GARLAND, TEXAS
(Dallas, Collin and Rockwall Counties)
ELECTRIC UTILITY SYSTEM REVENUE REFUNDING BONDS, NEW SERIES 2015

Dated Date: February 1, 2015 **Due: September 1, 2015 and March 1, as shown on page 2**
Interest to accrue from the date of initial delivery

PAYMENT TERMS . . Interest on the $15,355,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015 (the "Bonds") will accrue from the date of initial delivery to the Initial Purchasers thereof (the "Initial Purchasers"), will be payable September 1, 2015, and each March 1 and September 1 thereafter until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are authorized and issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207 of the Texas Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council, and are special obligations of the City of Garland, Texas (the "City"), payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Utility System (the "System"), such lien and pledge, however, being subordinate to the lien and pledge of the Net Revenues to the Prior Lien Bonds (identified and defined in the Ordinance). The City has covenanted in the Ordinance that it will not issue any additional obligations that are on a parity with the outstanding Prior Lien Bonds. At such time as there are no Prior Lien Bonds outstanding, the Bonds, together with any Additional Bonds (as defined in the Ordinance), will become obligations equally secured by a first lien on and pledge of the Net Revenues of the System. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS - Authority for Issuance" and "THE BONDS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's system revenue debt described in Schedule I (the "Refunded Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Bonds (see "PLAN OF FINANCING – Purpose of the Bonds").

CUSIP PREFIX: 366133

MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser and subject to the approving opinion of the Attorney General of Texas and the opinion of Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion").

DELIVERY. . . It is expected that the Bonds will be available for delivery through DTC on February 19, 2015.

MATURITY SCHEDULE

CUSIP Prefix: 366133[1]

Par Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix[1]
$ 85,000	9/1/2015	3.000%	0.200%	JL1
1,400,000	3/1/2016	3.000%	0.300%	JM9
1,455,000	3/1/2017	4.000%	0.600%	JN7
1,510,000	3/1/2018	4.000%	0.830%	JP2
1,575,000	3/1/2019	4.000%	1.100%	JQ0
1,635,000	3/1/2020	4.000%	1.350%	JR8
1,705,000	3/1/2021	4.000%	1.550%	JS6
1,785,000	3/1/2022	5.000%	1.750%	JT4
1,875,000	3/1/2023	5.000%	1.920%	JU1
1,940,000	3/1/2024	2.000%	2.030%	JV9
390,000	3/1/2025	2.000%	2.150%	JW7

(Interest to accrue from the Delivery Date)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Service Bureau, managed by Standard & 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. The City, the Financial Advisor and the Initial Purchasers take no responsibility for the accuracy of such numbers.

NO OPTIONAL REDEMPTION. . . The Bonds are not subject to redemption prior to maturity (see "THE BONDS – No Optional Redemption").

(THE REMAINDER OF THIS PAGE IS LEFT BLANK INTENTIONALLY)

No dealer, broker, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Initial Purchasers have provided the following sentence for inclusion in this Official Statement. The Initial Purchasers have reviewed the information in the Official Statement in accordance with, and as part of, their respective responsibilities to investors under federal securities laws as applied to the facts and circumstance of this transaction but the Initial Purchasers do not guarantee the accuracy or completeness of such information.

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.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Initial Purchasers after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

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

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

THE COVER PAGES CONTAIN CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND ARE NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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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 Garland (the "City") is a political subdivision and home rule municipal corporation of the State of Texas (the "State"), located in Dallas, Collin and Rockwall Counties, Texas. The City covers approximately 57 square miles (see "INTRODUCTION").

THE BONDS................................. The $15,355,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015 ("the Bonds") are issued as serial bonds maturing on September 1, 2015 and on March 1 in each of the years 2016 through 2025 (see "THE BONDS - Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds accrues from the date of initial delivery to the Initial Purchasers, and is payable September 1, 2015 and each March 1 and September 1 thereafter until maturity (see "THE BONDS - Description of the Bonds").

AUTHORITY FOR ISSUANCE .... The Bonds are authorized and issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207 of the Texas Government Code, as amended, and an Ordinance passed by the City Council of the City (see "THE BONDS - Authority for Issuance").

SECURITY AND SOURCE OF PAYMENT FOR THE BONDS .... The Bonds constitute special obligations of the City and are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Utility System (the "System"), such lien and pledge being subject and subordinate to the lien on and pledge of the Net Revenues to the Prior Lien Bonds. The City has covenanted in the Ordinance that it will not issue any additional obligations that are on a parity with the outstanding Prior Lien Bonds. At such time as there are no Prior Lien Bonds outstanding, the Bonds, together with any Additional Bonds (as defined in the Ordinance), will become obligations equally secured by a first lien on and pledge of the Net Revenues of the System. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS - Security and Source of Payment").

NO OPTIONAL REDEMPTION .... The Bonds are not subject to redemption prior to maturity (see "THE BONDS – No Optional Redemption").

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

USE OF PROCEEDS .... Proceeds from the sale of the Bonds will be used to (i) refund a portion of the City's outstanding system revenue debt described in Schedule I (the "Refunded Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Bonds. (see "PLAN OF FINANCING – Purpose of the Bonds").

RATINGS .... The Bonds have been rated "A+" (stable outlook) by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA-" (stable outlook) by Fitch Ratings ("Fitch") without regard to credit enhancement (see "OTHER INFORMATION - Ratings").

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 30-Sep	Estimated City Population[(1)]	Operating Revenues[(2)]	Operating Expenses[(3)]	Net Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt [(4)]	Number of Customers
2009	225,865	$ 231,131,257	$167,009,741	$ 64,121,516	$ 8,571,131	7.48	67,956
2010	226,876	232,468,615	169,922,518	62,546,097	10,229,755	6.11	68,001
2011	226,915	223,504,879	138,663,012	84,841,867	10,227,434	8.30	68,034
2012	227,730	223,700,784	140,852,028	82,848,756	10,291,124	8.05	68,396
2013	231,618	297,758,201	241,171,931	56,586,270	10,140,808	5.58	69,126
2014	231,618	377,383,233 [(5)]	312,954,733 [(5)]	64,428,500	9,929,481	6.49	69,262

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(1) Source: Estimates of North Central Texas Council of Governments and the City Planning Department.
(2) Excludes transfers from Rate Mitigation Fund.
(3) Excludes amortization of prepaid demand and depreciation as operating expense.
(4) Includes Prior Lien and New Series debt service requirements.
(5) Unaudited.

For additional information regarding the City, please contact:

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Director of Financial Services
City of Garland
P.O. Box 469002
Garland, Texas 75046
(972) 205-2355
dshuler@ci.garland.tx.us

or

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First Southwest Company, LLC
325 North St. Paul, Suite 800
Dallas, Texas 75201
(214) 953-4195
jim.sabonis@firstsw.com

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Douglas Athas Mayor	1 Year	May, 2015	Telecom Consultant
Marvin "Tim" Campbell District 1	2 Years	May, 2016	Retired, self-employed consultant
Anita Goebel District 2	2 Years	May, 2016	Photographer
Stephen W. Stanley District 3	1 Year	May, 2015	Realtor
B. J. Williams District 4	2 Years	May, 2016	Retired
Billy Mack Williams District 5	1 Month	May, 2016	Retired
Lori Barnett Dodson Mayor Pro-Tem District 6	3 Years	May, 2015	Asset Manager
Scott LeMay District 7	1 Year	May, 2015	Store Planner
Jim Cahill District 8	3 Years	May, 2015	Accountant

SELECTED ADMINISTRATIVE STAFF

Name	Position	Service to City
William E. Dollar	City Manager	42 Years
Martin E. Glenn	Deputy City Manager	34 Years
Bryan Bradford	Assistant City Manager	20 Years
David Schuler	Director of Financial Services	36 Years
Eloyce René Dowl	City Secretary	-

CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors ....Deloitte & Touche LLP
Dallas, Texas

Bond Counsel ....Fulbright & Jaworski LLP
a member of Norton Rose Fulbright
Dallas, Texas

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

OFFICIAL STATEMENT

RELATING TO

$15,355,000
CITY OF GARLAND, TEXAS
ELECTRIC UTILITY SYSTEM REVENUE REFUNDING BONDS, NEW SERIES 2015

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of $15,355,000 City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Bonds which authorizes the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein (see "SELECTED PROVISIONS OF THE ORDINANCE").

The City of Garland, Texas ("City") is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1891, and first adopted its Home Rule Charter in 1951. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and eight Councilmembers. The term of office is three years with the term of office of the Mayor and four of the Councilmembers expiring in odd-numbered years and the term of the other four Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, sanitation collection services, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2000 Census population for the City was 215,768, while the 2010 Census population was 226,876. The City's estimated population for 2015 is 233,206. The City covers approximately 57 square miles.

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, LLC, Dallas, Texas.

PLAN OF FINANCING

PURPOSE OF THE BONDS. . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding system revenue debt described in Schedule I – Schedule of Refunded Obligations (the "Refunded Obligations") for debt service savings, and (ii) to pay costs of issuing the Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled redemption date of such Refunded Obligations, from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon National Association, Dallas, Texas (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Initial Purchaser, the City will deposit with the Escrow Agent an amount sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Prior to the Redemption Date, such funds will be held invested by the Escrow Agent in an escrow account (the "Escrow Fund") and such funds may be either (i) held univested in the Escrow Fund, or (ii) used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency on instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency on instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and/or (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

By the deposit of the Escrowed Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel that as a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The Paying Agent/Registrar of the Refunded Obligations will certify as to the sufficiency of the amount initially deposited therewith to pay the principal of and interest on the Refunded Obligations on their Redemption Date.

The City covenants 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 should be insufficient to make such payment.

USE OF BOND PROCEEDS. . . Proceeds from the sale of the Bonds, together with the City funds, if necessary, are expected to be expended as follows:

Sources of Funds		
	Par Amount of Bonds	$ 15,355,000.00
	Premium	1,680,031.64
	Transfer from prior Debt Service fund	404,107.50
	Total Sources of Funds	$ 17,439,139.14
Uses of Funds		
	Refunding Escrow Deposits	$ 17,314,107.50
	Costs of Issuance	125,031.64
	Total Uses of Funds	$ 17,439,139.14

THE BONDS

DESCRIPTION OF THE BONDS. . . The Bonds are dated February 1, 2015, and will mature on September 1, 2015 and on March 1 in each of the years 2016 through 2025 and in the amounts shown on page 2 hereof, as set forth in the Ordinance (see "THE BONDS – No Optional Redemption"). Interest on the unpaid principal amounts will accrue from the date of initial delivery to the Initial Purchasers and will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on September 1 and March 1 of each year until maturity, commencing September 1, 2015. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein).

AUTHORITY FOR ISSUANCE. . . The Bonds are authorized and issued pursuant to the general laws of the State, particularly, Chapter 1207 of the Texas Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT. . . The Bonds are special obligations of the City payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues of the City's Electric Utility System (the "System") after payment of maintenance and operating expenses, such lien and pledge, however, being subordinate to the lien on and pledge of the Net Revenues to the Prior Lien Bonds (identified and defined in the Ordinance). Maintenance and operating expenses include contractual payments which under State law and their provisions are established as operating expenses. The City has reserved the right to issue additional obligations (the "Additional Bonds") payable on a parity with the Bonds from a lien on and pledge of the Net Revenues (see "THE BONDS – Additional Bonds"). The Bonds and the Additional Bonds are collectively referred to as the "Bonds Similarly Secured". The City has covenanted in the Ordinance that it will not issue any additional obligations that are on a parity with the outstanding Prior Lien Bonds. At such time as there are no Prior Lien Bonds outstanding, the Bonds Similarly Secured, will become obligations equally secured by a first lien on and pledge of the Net Revenues of the System. (See "SELECTED PROVISIONS OF THE ORDINANCE").

The City has outstanding Prior Lien Bonds secured by and payable from Net Revenues senior to the Bonds, as follows:

Dated Date	Amount Outstanding as of February 1, 2015	Issue Description
March 15, 2005	$910,000	Electric Utility System Revenue Bonds, Series 2005
March 15, 2007	$16,245,000	Electric Utility System Revenue Bonds, Series 2007
June 15, 2008	$7,565,000	Electric Utility System Revenue Bonds, Series 2008
May 15, 2009	$5,730,000	Electric Utility System Revenue Bonds, Series 2009
June 15, 2011	$7,055,000	Electric Utility System Revenue Bonds, Series 2011
November 1, 2011	$17,890,000	Electric Utility System Revenue Refunding Bonds, Series 2011A
May 1, 2013	$11,790,000	Electric Utility System Revenue Refunding Bonds, Series 2013

The Bonds are the second series of the Bonds Similarly Secured that are secured by and payable from a junior and subordinate pledge of the Net Revenues of the System. After the issuance of the Bonds, the City will have the following Bonds Similarly Secured outstanding:

Dated Date	Amount Outstanding as of February 20, 2015	Issue Description
June 1, 2014	$85,305,000	Electric Utility System Revenue Refunding Bonds, New Series 2014
February 1, 2015	$15,355,000	Electric Utility System Revenue Refunding Bonds, New Series 2015

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

RESERVE FUND. . .As additional security for the Bonds and any other Bonds Similarly Secured and under certain conditions, a Reserve Fund for the Bonds Similarly Secured may be required to be maintained in an amount calculated pursuant to a formula set forth in the Ordinance. Any amounts required to be accumulated in the Reserve Fund will be provided in accordance with the provisions of the Ordinance. At the time of the issuance of the Bonds, the Reserve Fund is not required to be funded. (see "SELECTED PROVISIONS OF THE ORDINANCE – Reserve Fund").

PLEDGED REVENUES. . . Subject to the prior lien on and pledge of the Net Revenues to the payment and security of the Prior Lien Bonds, the Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the Reserve Fund and Bond Fund are irrevocably pledged for the payment of the Bonds Similarly Secured and interest thereon. The Bonds and any other Bonds Similarly Secured, if issued, are equally and ratably secured by a lien upon and pledge of the Net Revenues of the System subject to the prior lien on and pledge of the Net Revenues to the payment and security of the Prior Lien Bonds (see "SELECTED PROVISIONS OF THE ORDINANCE").

RATES . . . The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, depreciation, replacement and improvement expenses, any other charges of the System to maintain the Bond Fund, to maintain the Reserve Fund at the Required Reserve amount and to pay all other outstanding indebtedness against the System as and when the same becomes due (see "SELECTED PROVISIONS OF THE ORDINANCE" and "THE SYSTEM" – Rate Mitigation Fund").

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to redemption prior to maturity.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date by reason of maturity, redemption, or otherwise), is provided by depositing in trust with the Paying Agent/Registrar, or an authorized escrow agent (1) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity or to the redemption date therefor, together with all interest due theron or (2) Government Obligations, certified by an independent public accounting firm to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment. The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a country, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under applicable laws of the State of Texas. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Upon such deposit as described above, the Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

AMENDMENTS…The City, may, without the consent of or notice to any Holders of Bonds, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Holders of any Bond, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the City may, with the written consent of the Holders of Bonds owning a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to or rescind any of the provisions of the Ordinance; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition or rescission shall (a) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor or the rate of interest thereon or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (b) give any preference to any Bond over any other Bond or (c) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission.

ADDITIONAL BONDS . . . The City may issue Additional Bonds payable from and secured by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Outstanding Bonds Similarly Secured, subject, however, to complying with certain conditions in the Ordinance. See "SELECTED PROVISIONS OF THE ORDINANCE" for terms and conditions to be satisfied for the issuance of Additional Bonds.

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

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

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

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

(“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. 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.

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered (see “THE BONDS – Transfer, Exchange and Registration”).

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.

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the beneficial owners thereof and thereafter 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 "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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

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

REGISTERED OWNERS' REMEDIES. . . The Ordinance provides that in the event the City (a) defaults in payments to be made to the Bond Fund and Reserve Fund as required by the Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the Holder or Holders of any Bond shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in the Ordinance. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledged Net Revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

THE SYSTEM

THE ELECTRIC SYSTEM. . . The System was started in 1923. The System currently serves 69,262 customers (approximately 85% of the electric customers within the City; the remaining 15% is served by other retail providers). The System does not serve any retail customers outside of the City limits, but it does provide wholesale surplus power to other cities and cooperatives.

The City owns and operates electric generating stations designated as the Ray Olinger Power Plant (ERCOT capacity of 406,000 kW) located at Lavon Lake and Spencer Power Plant (ERCOT capacity of 122,000 kW) located in Denton, Texas, and the Lewisville Hydro Facility (ERCOT capacity of 2,200 KW) located in Lewisville, TX. All of the City owned and operated generating facilities use natural gas as the primary boiler fuel with the exception of the Lewisville Hydro Facility.

In order to secure access to a long-term baseload electric generating facility, the City, together with the cities of Bryan, Denton and Greenville (together with the City, the "Member Cities") created the Texas Municipal Power Agency ("TMPA") in 1975. TMPA is a joint power agency without taxing power, and a separate municipal corporation and political subdivision of the State that operates in accordance with Chapter 163, Texas Utilities Code, as amended. TMPA's power generation consists of the Gibbons Creek Steam Electric Station located in Grimes County, Texas, and includes a single net 470 megawatt ("MW") Wyoming Powder River Basis ("PRB") coal fueled steam electric plant. The City's has a purchased power agreement with TMPA for 47%, or 221,000 MW of generating capacity. TMPA is an integral part of the City's power system, and as such, the operations of that entity have a significant financial impact on the System. See "THE SYSTEM – Texas Municipal Power Agency" and "THE SYSTEM – The TMPA Power Sales Agreement."

The City's Electric Transmission and Distribution Divisions are responsible for the construction, operation, maintenance, and repair of the transmission and distribution facilities of the System. Included are 26 substations, 199 miles of transmission line, 1,020 miles of overhead distribution lines and 1,006 miles of underground distribution lines. The Electric Distribution Division also constructs and maintains the street lighting system consisting of 15,017 street lights and 3,205 guard lights.

CITY OWNED AND OPERATED GENERATING UNITS. . . Shown below is certain information on the City owned and operated generating units:

Station	Type	Unit Number	ERCOT Capacity (MW)	Year Placed In Service
Ray Olinger	Steam Turbine	1	78.0	1966
Ray Olinger	Steam Turbine	2	107.0	1971
Ray Olinger	Steam Turbine	3	146.0	1975
Ray Olinger	Combustion Turbine	4	75.0	2001
Spencer	Steam Turbine	4	61.0	1966
Spencer	Steam Turbine	5	61.0	1972
Spencer	Hydro	1	2.2	1991
			530.2	

POWER INTERCHANGE. . . The City is a member of the Electric Reliability Council of Texas ("ERCOT"), the regional reliability coordinating organization for electric power systems in Texas. The City has access to the ERCOT intrastate network of transmission. Under the ERCOT Systems all generators have access to the statewide transmission system. Costs of access to the transmission system are allocated to load entities based upon their load ratio share of statewide transmission costs of service. Revenues for operation of the transmission portion of the System within the statewide system are based upon transmission costs of service as filed with the Public Utility Commission of Texas ("PUC").

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TABLE 1 - ELECTRIC RATE SCHEDULES OF THE CITY (EFFECTIVE OCTOBER 1, 2013, EXCLUDES RATE ADJUSTMENT FACTOR)

Residential Service Rate

Customer Charge	$ 5.34	Per Month
November/May	0.0528	Per kWh 0-600 kWh, $0.037 All Over 600 kWh
June/Octoboer	0.0561	Per kWh

General Service - Small (0-20 kW Demand)

		0 / 2,000	All over 2,000
Customer Charge	$ 11.55		
All months		$0.0602 per kWh	$0.0549 per kWh

General Service - Large (20 kW and Greater Demand)

Energy:		Demand: November/April		Demand: May/October	
0-60,000 kWh	$0.0276 Per kWh	First 200 kW	$6.88 Per kW	0-200 kW	$8.53 Per kW
All over 60,000	$0.0235 Per kWh	All over 200 kW	$6.33 Per kW	All over 200 kW	$7.98 Per kW

Public Institutional Electric Service Rate

Customer Charge	$19.25
November/April	$0.0413 Per kWh
May/October	$0.0520 Per kWh

High Tension Service Rate (5,000 kW and Greater Demand)

Energy	
0-6,000,000	$0.0056 Per kWh
Over 6,000,000	$0.0033 Per kWh
Demand Charge	$8.25 Per kWh

TABLE 2 - ENERGY SALES AND CUSTOMER INFORMATION OF THE CITY (FISCAL YEAR ENDED 9-30)

	2013			2012		
Type of Customer	Energy Sales (kWh)	Revenues	Number of Customers	Energy Sales (kWh)	Revenues	Number of Customers
Residential	886,893,438	$ 99,278,774	62,752	895,369,141	$ 98,555,063	62,084
Commercial	771,613,215	76,751,089	6,366	786,428,512	78,536,769	6,304
Industrial	265,102,898	15,779,514	8	278,540,907	16,141,663	8
Total	1,923,609,551	$ 191,809,377	69,126	1,960,338,560	$ 193,233,495	68,396

	2011			2010		
Type of Customer	Energy Sales (kWh)	Revenues	Number of Customers	Energy Sales (kWh)	Revenues	Number of Customers
Residential	975,845,219	$ 107,397,355	61,731	963,214,969	$ 110,448,915	61,721
Commercial	820,815,190	80,382,676	6,295	807,482,127	83,043,882	6,272
Industrial	286,602,192	17,604,390	8	278,417,135	18,365,663	8
Total	2,083,262,601	$ 205,384,421	68,034	2,049,114,231	$ 211,858,460	68,001

	2009		
Type of Customer	Energy Sales (kWh)	Revenues	Number of Customers
Residential	884,812,407	$ 105,486,740	61,691
Commercial	797,844,713	83,801,361	6,257
Industrial	281,415,928	20,976,710	8
Total	1,964,073,048	$ 210,264,811	67,956

TABLE 3 - ENERGY PRODUCTION OF THE CITY (FISCAL YEAR 9-30)

	2014	2013	2012	2011	2010
Owned Capacity (MW)	530	530	530	530	530
Firm Purchase Capacity (MW)	221	221	221	221	221
Peak Demand (MW)	447	474	495	515	492

WHOLESALE ENERGY CUSTOMERS . . . In addition to serving its retail load, the City provides wholesale power supply to wholesale customers in ERCOT. The City currently provides full load requirement services to Fayette Electric Cooperative, San Bernard Electric Cooperative, and the City of Farmersville. The City currently provides partial load requirement services to New Braunfels Utilities, the City of Georgetown, and the City of Weatherford. In January 2015, the City will begin providing partial load requirement services to the City of College Station. The following provides the terms of the current contracts the City has with its wholesale customers.

Wholesale Customer	Term
New Braunfels Utilities	thru Dec 2015
City of Georgetown	thru May 2016
Fayette Electric Cooperative	thru June 2016
Fayette Electric Cooperative	July 2016 thru Dec 2018 (Partial)
San Bernard Electric Cooperative	thru June 2016 (Full)
San Bernard Electric Cooperative	July 2016 thru Dec 2021 (Blocks)
City of College Station	Jan 2015 thru Dec 2016
City of Weatherford	thru Dec 2018
City of Farmersville	thru April 2019

TEXAS MUNICIPAL POWER AGENCY . . . TMPA is governed by a Board of Directors made up of two representatives from each Member City and is empowered to plan, finance, acquire, construct, own, operate and maintain facilities to be used in the business of generation, transmission and sale of electric energy to the Member. Each of the Member Cities has entered into separate but identical Power Sales Contracts with TMPA (as amended, the "TMPA Agreements"). The TMPA Agreement requires TMPA to prepare annual budgets, projecting its Annual System Costs for the succeeding year, including debt service requirements on its bonds, and to submit the same to the Member Cities. Based on these and other budgetary facts and estimates, TMPA sets the rates and charges to be paid by the cities for the ensuing year.

TMPA's Generation Unit. TMPA's power supply source consists of the Gibbons Creek Steam Electric Station located in Grimes County, Texas, and includes a single net 470 MW Wyoming PRB coal fueled steam electric plant, reservoir, railroad spur, associated transmission facilities, an adjacent surface mine no longer in use and related properties and equipment ("Gibbons Creek"). Gibbons Creek began commercial operation on October 1, 1983. For the fiscal year ended September 30, 2014, Gibbons Creek's capacity and availability were 76.69% and 96.24%, respectively. In 2001, the productivity of Gibbons Creek increased, in part due to gains achieved from better boiler management placed in operations with the modifications made to Gibbons Creek for the purpose of limiting nitrogen oxide ("NOx") emissions. See "REGULATORY MATTERS – Environmental Regulation." Gibbons Creek also participated in ERCOT's ancillary services market, in which capacity payments are paid by ERCOT to owners of generation based on the market clearing prices.

Modifications to Plant and Operations. Gibbons Creek was designed to burn lignite from a mine located on approximately 18,000 acres adjacent to the facility (the "Gibbons Creek Mine") and owned by TMPA. In 1996, TMPA commenced various modifications to Gibbons Creek, including the conversion of the plant to burn western coal mined in the PRB. The modifications included the installation of an advanced design steam path turbine and the installation of additional superheat sections. These modifications have increased the generation capacity and the operating efficiency of the plant. The modifications made to Gibbons Creek relating to the fuel conversion were completed in the summer of 1997. Mining operations were halted by TMPA at the Gibbons Creek Mine in February 1996. In 1997, TMPA terminated several leveraged leases for certain mining equipment by acquiring the equipment and then selling it in order to reduce operating expenses at the Gibbons Creek Mine. The modifications to the plant and the change in fuel were made with the expectation that they would provide fuel cost savings in comparison with the operation of the Gibbons Creek Mine for fuel, to reduce the planned outage cycle at Gibbons Creek and to allow TMPA to achieve compliance with the federal Clean Air Act without the need for additional sulfur dioxide allowances based on current regulations. In 2000 and 2005, TMPA commissioned separate plant life assessment studies of Gibbons Creek to help assess the impact of the fuel switch on the expected life of Gibbons Creek. Based on capital projects completed at the plant and improved maintenance practices, the 2005 assessment projected that the life expectancy of Gibbons Creek as a base load unit would be 2035.

Due to low prices for gas-fired generation in the ERCOT wholesale electric market, Gibbons Creek was dispatched less frequently in 2012 than anticipated. As a result, TMPA experienced difficulty meeting its minimum volume requirements under its coal supply agreements with Western Fuels-Wyoming, Inc. and Arch Coal Sales Company. In September 2012, a settlement was reached with Western Fuels in relation to the minimum volume commitment, which settlement terminated TMPA's obligation to purchase additional volumes of coal under the contract from Western Fuels. In regard to the remaining coal supply agreement, with Arch Coal Sales Company, a settlement was reached in January 2013 under which TMPA will purchase its requirements for PRB coal from Arch Coal through August 31, 2018.

On October 2, 1995, TMPA entered into a coal transportation agreement with the Burlington Northern Railroad Company, now the Burlington Northern Santa Fe ("BNSF"), under which BNSF was obligated to provide rail transportation for the coal purchased by TMPA from the PRB. The agreement expired on March 31, 2001. Prior to expiration of the coal transportation agreement, TMPA commenced a proceeding at the Federal Surface Transportation Board ("STB") to establish a maximum reasonable rate for service to Gibbons Creek. The STB, finding that the rate paid by TMPA exceeded the maximum reasonable rate, approved a new rate tariff through a decision made on March 21, 2003, as modified by a decision made on September 24, 2004.

In the Fall of 2010, a dispute arose between TMPA and the BNSF Railway concerning the term over which the 2003/2004 rate prescription remained in effect. TMPA was of the view that the term remained in effect until 2021. BNSF Railway was of the view that the term expired on December 31, 2010. In December 2010, after BNSF established a new tariff for service commencing on January 1, 2011, TMPA filed a petition with the STB to enforce the order to 2021. On July 27, 2011, the STB issued an order declaring that the prescribed rate had expired on December 31, 2010. On August 16, 2011, TMPA filed a motion for reconsideration of the STB's decision, which motion was denied on January 20, 2012.

On February 10, 2012, TMPA filed a petition for review of the STB's decision with the U.S. Court of Appeals for the D.C. Circuit. On April 20, 2012, TMPA filed in the STB a petition to re-open and modify the 2003/2004 STB rate prescription, which sought to extend the rate prescription to 2021.

During calendar year 2011, TMPA paid BNSF at the rates established in the 2003/2004 order, and not at the higher rates charged by BNSF commencing on January 1, 2011. As of September 30, 2012, TMPA recorded a liability for the difference between the rates charged and the rates actually paid of $9.0 million (the "Alleged Shortfall Amount"). In calendar year 2012, TMPA began paying under protest 100% of the amount invoiced by BNSF.

On June 20, 2012, BNSF filed a petition against TMPA to collect the Alleged Shortfall Amount in the U.S. District Court for the Western District of Texas. TMPA filed an answer, a counterclaim for amounts paid in excess of reasonable rail rates, and a motion to refer the rate reasonableness to the STB. In November 2012, TMPA and BNSF agreed in principle on the terms of a comprehensive settlement of all issues in dispute, and in March 2013, the settlement was implemented through the execution of a coal transportation agreement between TMPA and BNSF. Pursuant to the settlement, all litigation is being disposed of through agreement.

Subsequent to the 2003/2004 decision of the STB, TMPA began conducting certain engineering, routing, and related studies to determine the feasibility of constructing a railroad spur between Gibbons Creek and a rail line of the Union Pacific Railroad. In May 2005, the Board of Directors adopted a resolution of public necessity to acquire the right of way necessary for the construction of a rail spur between Gibbons Creek and the Union Pacific's main line track near Navasota, Texas. While the majority of the acreage needed for the spur had been acquired through voluntary purchase, it was necessary for TMPA to file nine proceedings in eminent domain to complete the spur right of way acquisition. Subsequent to those filings, TMPA settled all eminent domain proceedings and, in October 2012, acquired the last right of way required for the spur.

TMPA's Transmission Facilities. TMPA-owned transmission system consists of 345-kV and 138-kV switchyard facilities and transmission line facilities in the vicinity of the Gibbons Creek Station, as well as additional 345-kV and 138-kV lines and substation facilities in Brazos, Collin, Dallas, Denton, Grimes, Hunt, Montague, Robertson, Rockwall, and Wise counties of Texas. These facilities provide 345-kV ties to TXU Electric Delivery and Centerpoint Energy at several points throughout the ERCOT system. These facilities provide ties to the Member Cities, TXU Electric, Centerpoint Energy, Cap Rock Energy, and Brazos Electric Power Cooperative, Inc. at a number of points in the ERCOT system.

THE TMPA POWER SALES AGREEMENT . . . The City's rights and obligations with respect to TMPA are set forth in the TMPA Agreement. Capitalized terms used in this summary of the TMPA Agreement have the meanings given to such terms in the TMPA Agreement. See also "THE SYSTEM - Texas Municipal Power Agency v. Public Utility Commission" and "The Nodal Protocols Litigation" and "THE SYSTEM – Global Compromise Settlement Agreement", for a discussion of current litigation affecting, among other things, the setting of rates by TMPA under the TMPA Agreement.

Under the TMPA Agreement, the City is obligated to take or pay for its percentage share of the energy generated by TMPA, and TMPA is obligated to devote its best efforts to the generation and delivery of energy from the generating facilities of TMPA, but the failure of TMPA to provide energy under the TMPA Agreement will not relieve any Member City of its obligations under the TMPA Agreement, as such obligations are unconditional and absolute.

The Take or Pay Percentage. Under the TMPA Agreement, each of the Member Cities is unconditionally obligated to pay to TMPA, without offset or counterclaim and without regard to whether energy is delivered by TMPA to the Member Cities, their percentage of TMPA's Annual System Costs, as defined in the Agreement, including the payment of TMPA's debt service requirements and operating and maintenance expenses, as set forth below:

City of Bryan, Texas	21.7%
City of Denton, Texas	21.3%
City of Garland, Texas	47.0%
City of Greenville, Texas	10.0%

The percentage share of the payment to be made by each Member City under the TMPA Agreement is subject to amendment by agreement of the Cities subject to the requirement that the sum of the adjusted percentages shall not be less than 100%.

A Member City may choose to take or not take energy from the TMPA generating assets, as it sees fit. While the City's TMPA resource represents approximately 29% of the City's firm power capacity, the City took approximately 58% of its energy from TMPA in 2013. While a Member City is obligated to pay its fixed percentage of the annual system costs, it becomes obligated to pay the variable costs of generating energy only to the extent that it actually takes energy from TMPA.

The Debt Service Guarantee Percentage. In any instance where TMPA's bond, reserve fund and contingency funds, created by the TMPA Prior Lien Resolution, are not funded to the amount then required to be on deposit therein, without giving consideration to transfers made from funds other than TMPA's revenue fund or from proceeds of its bonds (provided that transfers may be made from TMPA's reserve fund to its debt service fund for not more than two (2) consecutive calendar months), the Member Cities are obligated to make their percentage share of a payment to TMPA in the amount that is necessary to establish or reestablish the amount then required, under the terms of the TMPA Prior Lien Resolution, to be on deposit in such funds. The percentage share of the payment to be made by each Member City under the TMPA Agreement is determined by calculating the percentage relationship that each Member City's Net Energy for Load for the contract year immediately preceding the contract year in which the calculation is being made to the total aggregate Net Energy for Load of all Member Cities for such contract year, and the sum of the adjusted percentages shall equal 100%.

Allocation of Energy by TMPA. Each Member City shall be entitled to schedule and receive, each month for its own account, the proportion of the available energy from TMPA's generation facilities equal to the Take or Pay Percentage, as such percentage may be from time to time adjusted in accordance with the provisions of the TMPA Agreement.

TMPA Agreement Term. The contract term of the TMPA Agreement is for a period of thirty-five years from September 1, 1976 or until all bonds and certain other indebtedness of TMPA is paid, whichever occurs later. At present, the final maturity of TMPA's indebtedness is September 1, 2018, although it is possible that TMPA could restructure its debt to shorten or extend the schedule of its debt retirement; provided any extension would require the approval by all of the governing bodies of the Member Cities pursuant to the terms of the Settlement Agreement (as defined herein). See "THE SYSTEM – Texas Municipal Power Agency v. Public Utility Commission" and "- Global Compromise Settlement Agreement."

Construction of New Projects. The TMPA Agreement provides that prior to the issuance of bonds on a parity with the TMPA Prior Lien Bonds, TMPA must give notice of intent to each Member City containing a general description of any new proposed project, the projected sources and uses of funds in connection therewith, and a statement of TMPA's opinion that such proposed project is necessary for TMPA to meet its commitments under the TMPA Agreement and is economically feasible. Each Member City is required thereafter to notify TMPA, within 60 days, of its approval or disapproval of the project. If each Member City approves the project, TMPA may thereafter issue bonds to finance the project without further approval of the Member Cities. Any Member City disapproving a proposed project is required to elect one of two options set forth in the TMPA Agreement. The TMPA Agreement includes provisions that differ from those described above for the sharing of energy and costs in the event that a new project is proposed and one or more Member Cities do not determine to participate in the project. There are no current plans for TMPA to initiate a new generation project. TMPA is constructing new transmission projects in accordance with transmission system expansion plans developed through the ERCOT regional transmission planning process.

TMPA Rates. The TMPA Agreement provides that the rates and charges for power, energy and services charged to each Member City by TMPA shall be (1) nondiscriminatory, (2) fair and reasonable and based on the cost of providing the power, energy and services with respect to which the rates or charges are based and (3) an amount sufficient to (i) pay TMPA's annual system costs, (ii) make the deposits to the funds required by the TMPA Resolution, (iii) fund the annual capital budget of TMPA, and (iv) with respect to other funds or other accounts established by the board of directors of TMPA (the "Board of Directors") and not required by the provisions of the TMPA Resolution, fund such funds or accounts in an amount not greater than 3.5% of TMPA's Annual System Budget, or such greater amount as may be approved by the affirmative vote of at least six members of the Board of Directors with at least one member of the Board of Directors appointed by each Member City voting in favor of any such increase.

Rebate of Excess Revenues to the Member Cities. Except for funds held for purposes of self insurance, any funds held by TMPA on the last day of each fiscal year over and above the amounts required in connection with subsections (i), (ii), (iii) and (iv) of clause (3) of the preceding paragraph shall be returned to the Member Cities within 120 days of such date in the same percentage as the percentage each City contributed to such amounts. Funds held pursuant to subsection (iv) of clause (3) of the preceding paragraph, if approved by the affirmative vote of at least six members of the Board of Directors with at least one member of the Board of Directors appointed by each Member City voting in the affirmative, may be used to reduce the debt of TMPA.

TMPA Agreement Payments Constitute Operating Expenses of the City. The TMPA Agreement provides that all payments by a Member City under the TMPA Agreement, including any payments required to be made to TMPA's bond, reserve and contingency funds, shall constitute an operating expense of the Member City's electric system payable solely from the revenues and receipts of such electric system.

Rate Covenant under the TMPA Agreement. Under the TMPA Agreement, each Member City has covenanted to establish, maintain and collect rates and charges for the electric service of its electric system which shall produce revenues at least sufficient, together with other revenue available to such electric system and available electric system reserves, to enable it to pay to TMPA, when due, all amounts payable by such Member City under the TMPA Agreement.

Sale or Assignment of Electric Systems. Under the TMPA Agreement and the TMPA Resolution, no sale or other disposition by a Member City of its electric utility distribution system as a whole or substantially as a whole may become effective without the consent of all the Member Cities and TMPA during the term of the TMPA Agreement. A Member City may assign its rights under the TMPA Agreement but such assignment shall not relieve such Member City of its financial obligations under the TMPA Agreement during the time any TMPA Revenue Bonds are outstanding.

TEXAS MUNICIPAL POWER AGENCY V. PUBLIC UTILITY COMMISSION . . . In July 1997, the TMPA Board voted to include in TMPA's budget and rates the PUC set transmission charges associated with the delivery of Gibbons Creek power to the Member Cities. The July 1997 action was based on provisions of the Power Sales Agreement that require TMPA to deliver the power from Gibbons Creek to points of delivery at or near the Member Cities, and that require each Member City pay a load ratio share of the delivery costs.

Bryan objected to the July 1997 action because Bryan desired to pay only the PUC set transmission charges applicable to its allocation of Gibbons Creek power, rather than a load ratio share of the PUC set transmission charges associated with the delivery of Gibbons Creek power to all four Member Cities. At the time, the PUC set transmission rates were based in part on a distance-sensitive methodology. Since Bryan is located closer to Gibbons Creek than the cities of Denton, Garland, and Greenville (the "Northern Cities"), the cost of the transmission charges applicable to Bryan's allocation of Gibbons Creek power was lower than Bryan's load ratio share of the charges applicable to all four Member Cities.

In 1998, Bryan filed a complaint at the PUC. Consistent with previous statements the PUC had made to the effect that it had the authority to unbundle a wholesale power contract, the PUC in 1999 granted Bryan's request to unbundle the Power Sales Agreement. This action of the PUC, if it had not been challenged, would have had the effect of, among other things, removing the costs of delivery from the cost sharing provisions in the Power Sales Agreement. Also in 1999, the PUC began including in its annual order setting ERCOT-wide transmission rates a provision requiring TMPA to provide unbundled transmission service to Bryan.

Contending, among other things, that the PUC had no jurisdiction over this dispute and no authority to unbundle the Power Sales Agreement and/or to change TMPA's rates, TMPA and the Northern Cities filed administrative appeals of the PUC rulings to Travis County District Court. In addition to its administrative appeals, TMPA also filed in the Travis County District Court various declaratory judgment claims similarly challenging the PUC's jurisdiction. While the District Court, in 2002, reversed and remanded these rulings of the PUC, the District Court also granted a summary judgment, holding that the PUC had jurisdiction to determine whether TMPA's rates were reasonable. Also, TMPA's declaratory judgment claims were dismissed for want of jurisdiction.

After TMPA and the Northern Cities, in the Court of Appeals, unsuccessfully sought reversal of the District Court's judgment in relation to the PUC's jurisdiction, the Texas Supreme Court granted their petitions for review in 2005. On December 14, 2007, the Supreme Court issued its decision reversing the Court of Appeals. The Supreme Court held, among other things, that: the PUC does not have jurisdiction to regulate, modify, or abrogate the Power Sales Agreement; the PUC does not have jurisdiction to unbundle or interfere with the Power Sales Agreement or TMPA's wholesale rates; and the PUC does not have jurisdiction over the contract dispute. In regard to the declaratory judgment claims asserted by TMPA, the Supreme Court remanded those claims to the Court of Appeals, to determine whether those claims should be dismissed as being redundant of TMPA's administrative appeals. Bryan and the PUC each filed a motion for rehearing in the Supreme Court on January 31, 2007, which motions were denied on June 20, 2008.

After the motions for rehearing were denied on June 20, 2008, the Court of Appeals, on July 25, 2008, held that the issues raised in TMPA's declaratory judgment claims were redundant of TMPA's administrative appeals, and since all issues in the administrative appeals had been addressed by the Supreme Court's decision, the Court of Appeals affirmed the dismissal of the declaratory judgment claims by the District Court.

After the dispute arose, Bryan withheld the disputed amounts from its payments to TMPA. To recover such amounts, TMPA, in 1998, filed suit in Grimes County District Court. The Grimes County case, including certain counterclaims filed by the City of Bryan in such case, has been dismissed with prejudice pursuant to the Global Compromise Settlement Agreement described below. See "Global Compromise Settlement Agreement" below.

THE NODAL PROTOCOLS LITIGATION . . . PUC Docket No. 31540, Proceeding To Consider Protocols To Implement A Nodal Market In the Electric Reliability Council Of Texas (ERCOT) Pursuant To P.U.C. Substantive Rule 25.501 was initiated in 2005 for the purpose of considering the approval of protocols developed by ERCOT that design a nodal market for wholesale power (the "Nodal Protocols"). TMPA and the Member Cities intervened in this Docket.

In this Docket, the cities of Garland and Greenville filed testimony relating to the effect the Nodal Protocols would have on the Power Sales Agreement. The testimony argued that the Nodal Protocols would interfere with the Power Sales Agreement by, among other things, interfering with TMPA's average system cost-based rates set under the Power Sales Agreement. TMPA filed a Statement of Position endorsing this testimony. In its intervention in this Docket, the City of Bryan supported adoption of the Nodal Protocols.

On April 5, 2006, the PUC approved the Nodal Protocols. In the order approving the Nodal Protocols, the PUC determined that the Nodal Protocols would be implemented as of January 1, 2009 (this date was subsequently extended to December 2010). On June 15, 2006, TMPA and Garland appealed the PUC order approving the Nodal Protocols to State District Court in Travis County, Texas. The cities of Greenville, Bryan and others have intervened in these appeals.

While TMPA is challenging the Nodal Protocols on several grounds, the primary concern is the potential for interference with the manner in which TMPA's rates are set pursuant to the Power Sales Agreement. Under the Power Sales Agreement, rates to the Member Cities are based on TMPA's Annual System Costs. The Nodal Protocols change these rates.

Under the Nodal Protocols, generating resources will receive payment from ERCOT for power generated into the grid and ERCOT will charge load entities for power taken from the grid. ERCOT will settle with each generating resource at a nodal price for the output of the resource (the "Nodal Price"). ERCOT will settle with retail load entities at a uniform average price charged to all retail load entities located in a Load Zone. In areas of transmission congestion, the average Load Zone price will be increased through payment of congestion rents or charges.

The issues raised by TMPA in the Nodal Docket are similar to the issues raised by TMPA and recently addressed by the Texas Supreme Court in *Texas Municipal Power Agency v. Public Utility Commission*.

Under the Nodal Protocols, TMPA and/or the Member Cities would be entitled to purchase "Pre-assigned Congestion Revenue Rights" or "PCRR's". As long as eligibility for PCRR's is unchanged, the PCRR's will enable TMPA and/or Member Cities to offset a portion of charges imposed due to congestion.

To date, other than interventions by other parties and the assignment of a judge to hear the appeals, no hearings or other developments have transpired in the appeals filed by TMPA and Garland which are still pending in Travis County District Court. See "Global Compromise Settlement Agreement" below.

*City of Bryan v. TMPA, Denton, Garland and Greenville, Cause No. 08-002233-CV-361, Brazos County District Court and Ex Parte TMPA, Cause No. D-1-GN-08-003426, Travis County District Court…*On September 11, 2008, the TMPA Board purportedly passed a resolution authorizing the issuance of $434,000,000 in additional bonds, to be used to extend a portion of the existing debt of TMPA and to fund certain capital improvements. On September 12, 2008, Bryan filed suit in Brazos County District Court against TMPA, Denton, Garland, and Greenville to enjoin the issuance of these bonds, asserting that the issuance of these bonds is not in TMPA's best interest and violates Bryan's contract with TMPA and TMPA's existing rules and regulations, and that the Northern Cities, because TMPA Board Members appointed by them voted for the issuance of these bonds, have tortuously interfered with Bryan's contract with TMPA. In addition, Bryan alleged that the Northern Cities, by causing the TMPA Board Members appointed by them to approve these bonds, participated in these Board Members' breaches of their fiduciary duty to TMPA. On September 19, 2008, TMPA filed a lawsuit ("TMPA I") in Travis County pursuant to Chapter 1205 of the Texas Government Code seeking a declaration that these bonds were valid and enforceable. Pursuant to authority provided in Chapter 1205 of the Texas Government Code, the Travis County court entered orders transferring Bryan's claims in its Brazos County suit and consolidating them with the Travis County lawsuit. On September 22, 2008, Bryan filed its answer in the Travis County suit, asserting the same grounds for contesting these bonds' validity as asserted in the Brazos County suit. On December 17, 2008, the Travis County District Court entered an order transferring certain claims to *In re* TMPA, Cause No. D-1-GN-08-03693 Travis County District Court ("TMPA II").

On May 15, 2009, the court in the Grimes County case ordered the parties to mediation. On May 18, 2009, the court in TMPA II, without entering any judgment, entered an order requiring the parties to engage in mediation. On June 25, 2009, this order was superseded by an amended order, also requiring mediation. See "Global Compromise Settlement Agreement" below.

GLOBAL COMPROMISE SETTLEMENT AGREEMENT…On December 10, 2009, the TMPA Board approved a Global Compromise Settlement Agreement Regarding Certain Litigation, Administrative Proceedings, and Other Disputes among and between the City of Bryan, Texas, the City of Denton, Texas, the City of Garland, Texas, the City of Greenville, Texas and the Texas Municipal Power Agency (the "Settlement Agreement"). The City Council approved the Settlement Agreement in December 2009. Additionally, each of the governing bodies of the other Member Cities have approved the Settlement Agreement and the Settlement Agreement has been executed by all parties. The Settlement Agreement, by its terms, became effective on December 17, 2009.

The Settlement Agreement resulted in a compromise of disputed claims among the TMPA and the Member Cities. One of the provisions of the Settlement Agreement requires each Member City to provide TMPA the funds necessary to pay each Member City's proportionate share of the scrubber refurbishment project to control emissions of sulfur dioxide and mercury at Gibbons Creek (the "Scrubber Project"). The City's proportionate share of the Scrubber Project is 47.0%. The Settlement Agreement required TMPA to apply the funds received from the Member Cities for the Scrubber Project to provide additional capacity to its commercial paper program, with such additional capacity to be used solely for the purpose of issuing commercial paper notes that will mature on or before September 1, 2018. The Member Cities were required to provide their respective funds for the Scrubber Project by May 1, 2010.

In addition, the Settlement Agreement required each Member City to provide TMPA the funds necessary to pay each Member City's proportionate share of the "Refundable Generation Related Debt" issued by TMPA, which consisted of the Texas Municipal Power Agency Subordinate Lien Revenue Refunding Bonds, Series 2003, in the aggregate principal amount of $56,935,000, the Texas Municipal Power Agency Subordinate Lien Revenue Refunding Bonds, Series 2004, in the aggregate principal amount of $77,335,000, and the Texas Municipal Power Agency Subordinate Lien Revenue Refunding Bonds, Series 2004A, in the aggregate principal amount of $61,385,000. The City's proportionate share of the Refundable Generation Related Debt was 47.0%. TMPA was obligated to apply the funds received from the Member Cities to redeem the Refundable Generation Related Debt within ninety (90) days of the date any Member City issued debt for such purpose. The Member Cities were required to provide their respective funds for the redemption of the Refundable Generation Related Debt by May 1, 2010.

Each of the Member Cities (including the City) issued obligation to satisfy their respective obligations under the Settlement Agreement.

Under the terms of the Settlement Agreement: (1) no debt shall be issued, nor any other action taken, by TMPA or any Member City that would extend the term of the TMPA Agreement beyond September 1, 2018, unless such extension is approved by all of the governing bodies of each of the Member Cities; (2) TMPA may refinance its existing generation-related debt only for the purpose of interest rate savings, and any such refinancing shall be pursued without the need for early or short calls; (3) TMPA shall use its best efforts to implement a transmission financing program that retains the present September 1, 2018 maturity date for all transmission debt associated with the return on investment on deferred assets as authorized in PUC Docket 21711, and that authorizes the refinancing of all other TMPA debt issued to finance or refinance TMPA transmission facilities, but only if such plan can be accomplished without extending the term of the TMPA Agreement beyond September 1, 2018 or jeopardizing the Member Cities' rights to pre-assigned congestion revenue rights ("PCRRs"); (4) any future financing necessary for the operations of TMPA other than transmission debt shall be in the form of debt issued by each Member City in the same manner as the Scrubber Project and in the amount of each Member City's proportionate share (in the alternative, TMPA may issue debt with the approval of the governing body of each Member City, other than transmission debt, which does not require such approval, provided the maturity date of such debt does not extend beyond September 1, 2018); and (5) no Member City shall sell, fail to purchase, or otherwise fail to utilize its PCRRs in a manner that minimizes TMPA's nodal delivery costs. The Agreement also resolves the parties' dispute as to the treatment of transmission costs.

Also pursuant to the Settlement Agreement, all litigation between the City of Bryan and TMPA/Northern Cities has been disposed of through the entry of agreed orders.

The following provides TMPA's currently estimated debt service payments through fiscal year 2018, the anticipated final year of generation debt for TMPA.

	FY15	FY16	FY17	FY18
Debt Service - Bonds	$133,966,961	$143,710,114	$239,441,520	$106,049,998
Tax Exempt CP Debt Service	267,375	1,200,395	2,204,722	31,136,664
Reserve & Contingency Fund Payout	-	-	(104,000,000)	-
Total	$134,234,336	$144,910,509	$137,646,242	$137,186,662
Garland's Percentage Share	47.0%	47.0%	47.0%	47.0%
Garland's Share	$63,090,138	$68,107,939	$64,693,734	$64,477,731

SB 7, TMPA AND THE MEMBER CITIES . . . Several provisions in SB 7 pertain to TMPA and its Member Cities. One of these provisions (the "Debt Retirement Provision") provides that TMPA shall "set as an objective the extinguishment of the agency's debt by September 1, 2000," and further provides that, in the event the objective is not met, TMPA must "provide detailed reasons to the electric utility restructuring legislative oversight committee by November 1, 2000, why the agency was not able to meet this objective." The Debt Retirement Provision goes on to state that each municipal power agency "shall extinguish the agency's indebtedness by sale of the electric facility to one or more purchasers, by way of a sale through the issuance of taxable or tax-exempt debt to the member cities, or by any other method." The Debt Retirement Provision does not provide for any penalty or remedial action to be taken against a municipal power agency for the failure to meet the objective of extinguishing its debt by September 1, 2000.

In July 1999, the Board of Directors of TMPA established a Debt Retirement Committee to study and to recommend options for achieving the objective of extinguishing TMPA's debt. Based on the work of the Committee, in October 2000, TMPA submitted to the Joint Committee on Oversight of Electric Utility Restructuring (i.e. the electric utility restructuring legislative oversight committee referred to in SB 7) the report required by the Debt Retirement Provision. The report, in addition to explaining the reasons why TMPA was not able to extinguish all of its debt by September 1, 2000, identified the options explored by the Committee and available to TMPA to reduce TMPA's debt service requirements in the future. The options that are available to TMPA may be affected, and possibly limited, by certain provisions of the TMPA Agreement that pertain to asset sales and provisions of the TMPA Resolution that require it to comply with federal requirements that govern the use of facilities that have been financed with proceeds of tax-exempt bonds, among other factors.

In addition, SB 7 provides that TMPA may, at its option, use the rate of return method for calculating its transmission cost of service. If the rate of return method is used, the return component for the transmission cost of service ("TCOS") revenue requirement shall be sufficient to meet the transmission function's pro rata share of levelized debt service and debt service coverage ratio and other annual debt obligations; provided that the total levelized debt service may not exceed the total debt service under TMPA's current payment schedule. Any additional revenue generated by this methodology must be applied to reduce TMPA's outstanding indebtedness. This provision of SB 7 allows TMPA to take into account in determining the transmission revenue requirement a portion of the transmission system's share of TMPA debt service as if such debt service was level instead of increasing over time, which accelerates the recovery of that portion of debt service vis-a-vis actual debt requirements. Pursuant to this provision of SB 7, TMPA applied for, and, on February 16, 2001, received from the PUC an order revising and leveling TMPA's TCOS. On August 1, 2001, the PUC approved a plan for the use of the additional revenues resulting from the levelized TCOS for the reduction of TMPA's debt. The major components for the plan are determination of the transmission portion of TMPA's debt service; calculation of TCOS revenues based on levelized and actual debt service, and identification of the indebtedness instruments that would maximize reduction of debt service. In addition, TMPA has established a debt retirement reserve for purpose of accounting for the additional revenues. As additional revenues are used to retire outstanding indebtedness identified in the PUC approved plan, the debt retirement reserve will be relieved.

FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY . . . The electric utility industry in the State in general has been, and in the future may be, affected by a number of factors that could impact the financial condition and competitiveness of the System. Such factors include:

- prevailing governmental policies and regulatory actions, including those of the Federal Energy Regulatory Commission ("FERC"), the United States Environmental Protection Agency ("EPA"), the Texas Commission on Environmental Quality ("TCEQ"), the North American Electric Reliability Corporation ("NERC"), the PUC and ERCOT, with respect to:
    - wholesale market design, including allocation of transmission congestion costs;
    - transmission cost rate structure;
    - purchased power and recovery of investments;
    - acquisitions and disposal of assets and facilities;
    - operation and construction of facilities;
    - present or prospective wholesale and retail competition;
    - changes in and compliance with environmental and safety laws and policies; and
    - developments in Federal law with respect to the ability of the City and TMPA to finance and operate facilities and make energy sales in a manner that permits them to finance facilities with, and honor existing covenants with respect to, tax-exempt debt;
    - reliability standards put forth by Electric Reliability Organizations under FERC authority;
- federal legislation to expand FERC authority to address cyber-security vulnerabilities in the electric utility industry;
- legislation passed by the Texas Legislature to restructure the electric utility industry in Texas or any amendments that may be enacted to that legislation in future Texas legislative sessions;
- increased costs of compliance and production resulting from possible Federal legislation to curb the generation of greenhouse gases, primarily carbon dioxide;
- competition from "self-generation" of electric energy by certain industrial and commercial customers;
- increased costs or decreased revenues resulting from conservation and demand-side management programs on the timing and use of electric energy;
- power costs and availability, including the continued development, and financial stability of owners of, merchant power plants in the State;
- weather conditions and other natural phenomena, and acts of sabotage, wars or terrorist activities;
- unanticipated population growth or decline, and changes in market demand and demographic patterns;
- changes in business strategy, development plans or vendor relationships;
- competition for retail and wholesale customers;
- access to adequate and reliable transmission facilities to meet changing demands;

- pricing and transportation of coal, natural gas and other commodities that may affect the cost of energy sold to the City by TMPA and others;
- unanticipated changes in interest rates, commodity prices or rates of inflation;
- unanticipated changes in operating expenses and capital expenditures;
- commercial bank market and capital market conditions;
- competition for new energy development and other business opportunities;
- legal and administrative proceedings and settlements;
- inability of the various counterparties to meet their obligations with respect to the Electric System's power purchase arrangements;
- significant changes in the System's relationship with its employees, including the availability of qualified personnel;
- significant changes in critical accounting policies material to the System; and
- actions of rating agencies.

The City cannot fully predict what effects such factors will have on the operations and financial condition of the System, but the effects could be significant. The discussion of such factors herein does not purport to be comprehensive or definitive, and any or all of these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

REGULATORY MATTERS

TEXAS DEREGULATION STRUCTURE, STATUS AND ISSUES . . . The following discussion, as well as the discussion set forth under "The New Nodal Design Rule", is presented for the purpose of providing information concerning the current Texas legal and market structure. The Texas market is unique in many respects from deregulated markets in other parts of the United States, in part due to the isolation of the market in ERCOT, which is essentially a transmission grid and associated generation facilities with few interconnects to other transmission grids. While the City has not "opted in" to full retail competition, it does participate in the wholesale energy market through its use of power sale agreements.

The wholesale energy market in ERCOT was established by legislation enacted in the 1995 Texas Legislature, and has been significantly modified and developed through enactment of SB 7 and the commencement of retail electric choice in Texas on January 1, 2002. The discussion below describes some of the effects on the market and the challenges presented to the market as a whole, as well as, in some instances, local regions within ERCOT that are facing particular effects of deregulation. The continuing development of wholesale and retail competition in the ERCOT market will affect the planning, actions, options, cost structure and other essential factors of the Electric System.

The information in this section is derived from various PUC and ERCOT source materials, and in particular, portions of this section are excerpted from the 2005, 2007, 2009, 2011 and 2013 PUC Reports to the Texas Legislature (The 2005, 2007, 2009, 2011, and 2013 PUC Reports, collectively the "PUC Legislative Reports"). The 2013 PUC Report is available in full on the PUC website at http://www.puc.state.tx.us/industry/electric/reports/scope/Default.aspx and previous biennial reports to the Texas Legislature are available in full on the PUC website at http://www.puc.state.tx.us/industry/electric/reports/scope/ScopeArchive.aspx. Except for specific references to the City or as otherwise noted as being provided by another source or entity, all expressions of opinion, summaries of events and statistical information contained in such sections are from the PUC Legislative Reports. The City does not take responsibility for the content of the PUC Legislative Reports on either the PUC or ERCOT websites or in ERCOT reports.

In general, the restructuring of the electric utility industry in accordance with SB 7 continues to evolve, and the City is observing and evaluating the changes in the developing energy market in the State. The elimination of the price to beat ("PTB") rate on January 1, 2007 and the "go-live" implementation of the Nodal Market in ERCOT on December1, 2010 are key dates in the evolution of the restructured market.

Since January 1, 2002 when consumer choice began in competitive areas of ERCOT, there has been continued development within ERCOT of a market-driven wholesale market in which energy is a commodity. It is apparent that traditional planning methods using known generation resources paired with known load has become less important as a planning approach in the market in general. As the competitive market matures in Texas, the market will almost certainly experience ebbs and flows in the construction of new generation and transmission facilities, and some of the existing generation will be displaced by newer resources, which may affect the market price of energy on both the retail and wholesale levels, as well as the demands on, and capacity of, the existing electric transmission system.

ERCOT . . . ERCOT is one of 10 Regional Reliability Councils in the NERC. The ERCOT bulk electric system is located entirely within the State of Texas and serves more than 23 million customers, representing approximately 85% of Texas' electrical load. The ERCOT service region covers more than 75%, or 200,000 square miles, of the State and contains a total of approximately 40,500 miles of transmission lines, including approximately 9,000 miles at 345 kV, and more than 550 generation units. ERCOT also manages financial settlement for the competitive wholesale bulk-power market and administers customer switching for 6.6 million Texans in competitive choice areas. According to ERCOT, the all time peak demand in ERCOT occurred on August 3, 2011 when 68,305 MWs of power was used. ERCOT is connected electrically to other reliability councils through two direct current lines, providing only limited import/export capability. Other electric reliability councils, including the Southwest Power Pool and the South East Reliability Council, serve areas in the Texas panhandle, east Texas and west Texas.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an independent system operator ("ISO") in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers. Under Texas law, ERCOT is required to perform four primary functions: ensuring non-discriminatory access to the transmission and distribution systems for all electricity buyers and sellers; ensuring the reliability and adequacy of the regional electric network; ensuring that information related to customer retail choice is provided in a timely manner; and ensuring that electricity production and delivery are accurately accounted for among all regional generators and wholesale buyers and sellers. The PUC has primary jurisdiction over ERCOT. Legislation enacted in 2005 clarified that the PUC has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ERCOT regulations require that each market participant, including municipally owned utilities ("MOUs"), either be, or engage, a QSE to submit schedules and ancillary services bids and settle payments with ERCOT.

Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. With the adoption of SB 7, investor owned utilities have "unbundled" their respective electric generation business, electric transmission and distribution business and retail electric business from one another. See "THE SYSTEM - SB 7, TMPA and the Member Cities."

TRE . . . With its delegated authority from the NERC, the Texas Regional Entity ("TRE") began operations in 2007 for the purpose of monitoring, reporting, and enforcing compliance with the NERC reliability standards in ERCOT.

Overview of the Senate Bill 7 Market Structure . . . SB 7 dramatically altered the production and sale of electricity to retail customers in the State. Prior to SB 7, all retail customers were served by integrated investor-owned electric utilities, electric cooperatives ("Electric Co-ops"), or MOUs. The PUC certificated the service areas of utilities, Electric Co-ops, and MOUs, where, for the most part, these entities were granted the exclusive right and obligation to serve customers in an area. Integrated utilities, MOUs, and Electric Co-ops built generation plants and constructed transmission and distribution facilities and performed retail functions such as billing and customer service to meet their obligations to serve. The PUC set electric rates, for those utilities over which it had rate-making authority, that gave those utilities the opportunity to earn a reasonable return on prudent investments and to recover reasonably incurred expenses, but that were also just and reasonable to retail customers. As described below, the implementation of the Nodal Design Rule dramatically altered the wholesale market dynamics in ERCOT.

The wholesale electric market was opened to competition as a result of the amendments to the Texas Public Utility Regulatory Act ("PURA") adopted by the Legislature in 1995. As a part of these amendments, independent power producers ("IPPs") were granted access to the transmission lines of utilities, Electric Co-ops, and MOUs in order for IPPs and power marketers to move power to wholesale customers.

As noted above, SB 7, adopted by the Legislature in 1999, established a framework to allow retail electric customers to select a provider of electricity other than the traditional utility beginning in January 1, 2002, unless the PUC delayed competition for a utility's service area. The governing boards of Electric Co-ops and MOUs were granted the authority to decide if and when to open their service areas to customer choice. The City has not adopted retail customer choice.

Although transmission and distribution facilities remain regulated by the PUC, the prices for the production and sale of electricity to both wholesale and retail customers are now predominantly dictated by market forces instead of regulatory rate-setting procedures. Customers with peak demand of one MW or less were provided access to the regulated PTB rate until January 1, 2007 (beginning January 1, 2005, affiliated retail energy providers ("REPs") were permitted to offer rates lower than the price to beat), and the PUC is required to designate "providers of last resort" ("POLRs") to ensure that all customers have access to electricity in the competitive market. The POLR for the City would be determined when and if the City ever elected to opt into a retail competition.

SB 7 established a framework for retail competition that is different from that adopted in other states. Formerly integrated investor-owned utilities were required to separate their business functions into three distinct companies: a power generation company ("PGC"), a transmission and distribution utility ("TDU"), and an REP. PGCs operate as wholesale providers of generation services, in the same manner as independent generators. REPs operate as retail providers of electricity and energy services, and are the entities that have the primary contact with retail customers in the new market. TDUs remain regulated by the PUC, and are required to provide non-discriminatory access to the transmission and distribution grid at rates and terms of access prescribed by the PUC.

In Texas, ERCOT performs functions in the retail market that are performed by the TDUs in other states that have introduced retail competition. Key elements in the design of the ERCOT retail market are the creation of a single, large retail market throughout the region and the use of a neutral third party to perform tasks related to the scheduling of power and settlement functions. ERCOT also serves as the registration agent for all retail transactions. All customer switch requests, move-in and move-out requests, and monthly electricity usage data flow through ERCOT.

REPs generally provide electricity to customers by purchasing wholesale electricity from generators located within the ERCOT region. REPs use a QSE to schedule power through ERCOT to meet their customers' daily energy needs. All schedules and transactions within ERCOT "flow," which means that schedules are not contingent upon a determination that there is adequate transmission capacity available to move power from the generation resource to the load. If all of the schedules submitted for a particular day or hour cannot be accommodated because of transmission constraints, ERCOT uses a market-based congestion management system to clear the congestion and maintain reliability. The costs associated with clearing the congestion are assigned to market participants under methods outlined in the protocols adopted by ERCOT (the "ERCOT Protocols" or the "Protocols") and approved by the PUC. As described below under "Congestion Under Nodal Design" the Nodal Design Rule has altered the way in which some costs associated with clearing and congestion are processed.

Generation Capacity Adequacy. . . According to the ERCOT Long-Term Hourly Peak Demand and Energy Forecast March 2014 (the "ERCOT LTDEF"), the peak demand on the ERCOT system from 2003-2013 has increased at a rate of 1.1% per year. The current forecast for 2014 through 2024 indicates a 1.3% average annual increase in ERCOT's peak demand.

Currently there are almost 11,500 MW of generation within ERCOT that is over 40 years in age. Generation maturity is important to ERCOT planners in determining available capacity, long-range reliability, and whether there will be enough new capacity to compensate for load growth requirements. Age is one indication of the efficiency and maintenance cost of a generating unit, which are major factors in the decommissioning of units. Most of the older capacity is located in and around the larger metropolitan areas of the state.

Since 1997 the ERCOT system has added approximately 150 plants, added new units to existing plants, and upgraded existing units. The new generation units added in the last couple of years includes over 11,000 MW of wind generation. These new plants, especially the wind generation, have resulted in significant changes which have placed new challenges on the adequacy and the reliability of the existing transmission grid.

According to the December 2013 update to the PUC's "New Electric Generating Plants in Texas Since 1995" report, companies in the electric business have made significant investments in Texas (State-wide, including non-ERCOT areas) in recent years. About 55,987 MW of new generating capacity has been added in Texas since 1995, and some 28,681 MW of new capacity has been announced but has not yet begun construction (all statistics in this paragraph include fossil - fueled and renewable generation). The most recent Capacity, Demand, and Reserves report from ERCOT (published on December 1, 2014) indicates that the reserve margin in the ERCOT region is expected to be at 15.7% for 2015, above the target reserve margin of 13.75%.

The chart below provides information on ERCOT projected summer reserve margin for the years 2015 through 2019. ERCOT experiences peak demand during the summer; projected winter reserve margins are substantially higher than the projected summer margins.

Year	Summer Load Forecast (MW)(1)	Total Resources Available (MW)(2)	Reserve Margin
2015	66,714	77,166	15.7%
2016	67,427	78,947	17.1%
2017	68,284	80,654	18.1%
2018	69,219	80,654	16.5%
2019	70,272	79,814	13.6%

Source: ERCOT Report on the Capacity, Demand, and Reserves in the ERCOT Region, 2015-2024, December 1, 2014.
(1) Summer Load Forecast is ERCOT's firm load forecast, not peak summer load.
(2) Total Resources Available include installed capacity, capacity from private networks, effective load-carrying capability ("ELCC") of wind generation, RMR units, 50% of non-synchronous ties, switchable units, available mothballed generation, planned units (not wind) with signed interconnection agreement ("IA") and air permit and ELCC of planned wind units with signed IA. Total Resources Available excludes switchable units unavailable to ERCOT and retiring units.

ERCOT has performed technical studies and reviewed the appropriate level of reserve margins. As a result of such studies, ERCOT has established a 13.75% reserve margin goal for the ERCOT market for planning purposes.

Congestion Under Nodal Market Design . . . On April 5, 2006 the PUC issued an order accepting the ERCOT proposed draft protocols for implementing a nodal market design in Texas initially by January 1, 2009. The ERCOT Nodal Market had a "go live" date on December 1, 2010. In the nodal market, there is no intra-zonal congestion, with the result that all congestion is treated in a manner similar to current zonal (or inter-zonal) congestion with the exception of how the cost of congestion is determined and to which party that cost is assigned. Under the nodal market design, all points of receipt or delivery into the ERCOT transmission system are assigned a value of energy at that unique point. The difference between the prices between any two points is considered the imputed cost of transmission between those two points, including any congestion costs.

ERCOT acts as a centralized dispatching agent, charging all loads, or users for electricity based on calculated nodal prices and paying all providers, or generators, of energy based on the appropriate nodal price for the point where their energy is injected into the transmission system. Zones will still be used in the nodal market design, but only for financial settlement purposes. Under the approved Texas version of the nodal market design, all loads, or users of energy within a designated zone, will pay the same average price based on the weighted average price of all load nodes in that zone. The zones initially established in the draft nodal protocols approved by the PUC are basically the four existing zones plus three zones for three non-opt-in entities ("NOIEs"), specifically, the municipal utilities of San Antonio, Austin, and the Lower Colorado River Authority. Up to seventeen additional non-opt-in utilities may also request their own zone designations prior to the implementation of the protocols, if they desire.

The PUC's order also initiated a proceeding to examine the issues of creating and changing load zones in a nodal market to ensure that any changes occur in a systematic procedural manner that do not adversely impact any parties. The PUC initiated Project No. 37052 to develop critical performance metrics and criteria for the ERCOT nodal market. For the City, the move to a nodal market design means that the System is paid by ERCOT the calculated nodal price at Gibbons Creek for the City's portion of generation output at Gibbons Creek by ERCOT, and pays ERCOT the zonal average price for the zone in which it is located, for all usage by the City. Unlike the zonal market, where there was a distinct advantage to having both Gibbons Creek and the System in the same congestion zone to avoid incurring zonal (or inter-zonal) congestion costs, the load zones created in the nodal market do not impact the price that ERCOT pays for Gibbons Creek production.

PUC Regulatory Activities

Wholesale Market Oversight . . . In September 2006, the PUC selected Potomac to serve as the independent market monitor ("IMM") for ERCOT, a function that was legislated at the request of the PUC by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUC rule provides that the IMM shall report directly to the PUC any potential market manipulations, including market power abuse, and any violations of PUC rules or ERCOT Protocols.

The PUC rule establishes the IMM as an office independent from ERCOT, which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUC supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant. The rule took effect in April 2006.

ERCOT Oversight by the PUC . . . Legislation enacted in 2005 clarified that the PUC has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable.

Renewable Energy Mandate . . . SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities; however, this timing difference poses a dilemma for planning: it is difficult to know whether a new line will be needed if the generation facilities do not yet exist, but a wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 ("SB 20") increased the state's renewable energy goal. SB 20 directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUC is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. SB 20 also authorized the PUC to regulate in this area, and specifically authorized the PUC to identify an area with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the zone. The PUC issued an order in Docket No. 33672 on October 7, 2008 designating five CREZs, three in west Texas and two in the Panhandle and selecting a transmission scenario that will eventually transmit a total of 18,456 MW of wind power from west Texas and the Panhandle to metropolitan areas of the state. Estimated cost of the transmission projects is $6.92 billion. The actual routing has been developed in the CCN application proceedings related to each CREZ transmission line.

In Docket No. 35665, the PUC identified the major transmission improvements needed to serve the CREZs and selected the transmission providers who will construct both the "priority" CREZ lines and the "subsequent" CREZ transmission projects. Garland appealed the final order of the PUC designating the transmission providers of the CREZ transmission lines in *City of Garland, Texas, v. Public Utility Commission of Texas*, Cause No. D-1-GV-09-001199, in the state district court of Travis County, Texas. On January

15, 2010, the district court issued its final order in that cause, reversing and remanding the PUC's final order in Docket No. 35665. As a result of the court's decision, the PUC established a new docket (Docket No. 37902) for the matters that the PUC considered on remand of its prior order, and established another new docket (Docket No. 37928) regarding the portion of the order designating the transmission providers for the CREZ "priority" projects, which Garland did not appeal. On March 30, 2010, the Commission issued its Order on Remand in Docket No. 37902. Docket No. 36802 was also created to establish a sequence for the orderly filing and processing of the CCN application proceedings related to the "subsequent" CREZ transmission projects.

In Project No. 34577, the PUC amended PUC Substantive Rule 25.174 to provide specific factors for determining whether sufficient financial commitment has occurred within the CREZ zones in order for the related CCN applications to go forward. In adopting that rule amendment, the PUC determined that sufficient financial commitment has occurred in the Central, Central West and McCamey CREZs. In Docket No. 37567, the PUC considered whether sufficient financial commitment has occurred in the Panhandle A and B CREZs. On February 11, 2010, the PUC voted to issue an order finding that sufficient financial commitment has occurred in Panhandle A and B, subject to the posting of collateral by affected renewable generators in accordance with the rule. The PUC identified the major transmission improvements needed to serve the CREZs and selected the transmission providers who will construct the improvements. The actual routing has been developed in subsequent CCN application proceedings.

The CREZ-related CCN proceedings have been completed and the lines are in final construction. The City is participating in the CREZ process through the construction of the Bakersfield – McCamey North – Odessa 345-kV transmission lines, which are a combined 75 miles in length. The original estimated cost for the Bakersfield – McCamey North – Odessa 345-kV transmission lines was $100.9 million; however, the final project costs were $89 million due to lower than expected material costs. The lines were energized in January 2014. The City filed an interim transmission cost of service ("TCOS") with the PUC on June 16, 2014. The interim TCOS rate was approved by the PUC on August 15, 2014. Subsequent to the approval of the interim TCOS rate by the PUC, the City filed a full TCOS with the PUC on September 23, 2014, with an anticipated approved rate by the end of February 2015.

Emerging Issues

Demand Response . . . Demand response, the ability of customers to reduce usage in response to high prices or grid conditions, will play an increasing role in the electricity market in the coming years. Some customers have some ability to respond to high prices by reducing usage at times when the price of electricity rises to a high level. This option may be attractive to additional customers, if developments in metering allow smaller customers to have their consumption metered at intervals shorter than one month and if they take advantage of retail prices that are based on wholesale prices. For ERCOT's settlement system to allow smaller customers to respond readily to spot market prices, advanced metering will be required. When advanced meters are deployed, REPs will have the chance to offer demand response products to smaller customers, which will in turn allow customers to have more control over their electric bills. The PUC adopted a rule on advanced metering in May 2007. Many of the state's utilities have commenced deploying advanced meters in accordance with the rule.

Alternative Transmission Models . . . According to the PUC, there has been interest in building transmission under a different set of rules. A power generation company might, for example, be willing to build and operate transmission facilities at its own expense (with no support from regulated rates) to connect to the transmission grid, without incurring the obligation to provide open-access to other entities. Such an arrangement might, for example, permit one or more generation companies that are outside of ERCOT to connect their facilities to the ERCOT transmission network at their own expense, without running the risk that they would be obligated to provide service to other customers. A similar transmission arrangement might permit a group of wind generators to build transmission to move the power they generate from West Texas to a location closer to population centers in East and Central Texas. Developers might also be interested in building merchant transmission connections between ERCOT and other power regions (the eastern or western United States or Mexico), where the interconnections are limited today.

Federal Regulation of Electric Transmission Services

The Energy Policy Act of 1992. The Federal Energy Policy Act of 1992 (the "Energy Policy Act") greatly expanded the authority of FERC to order utilities, including utilities within ERCOT, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has authority to determine the prices that may be charged for transmission, but has generally deferred to the PUC electric transmission open access rules for access and pricing within ERCOT.

Retail Wheeling. The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the Energy Policy Act. However, while the States may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

FERC Final Rules and Proposed Rulemakings in Federal Regulation of Electric Utilities. To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the Energy Policy Act, on April 24, 1996, FERC issued two final rules ("FERC Final Rules") on non-discriminatory open access transmission services by public utilities and stranded cost recovery. The first of the FERC Final Rules, Order No. 888, requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundle wholesale power services by (1) applying unified transmission tariffs system to all customers, (2) providing separate rate systems for wholesale generation, transmission and ancillary services and (3) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy. The second of the FERC Final Rules, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications, and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in the FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

Although the FERC Rules do not directly regulate municipally-owned and other non-FERC-regulated utilities, the FERC Rules have a significant impact on such utilities' operations. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for investor owned utilities whenever they are properly requested to do so under the Energy Policy Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, the non-FERC-regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC-regulated utilities exercise their option to switch to an alternative supplier of electricity.

Over the past several years, various efforts have been made to provide some interstate connections with the ERCOT transmission grid. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. FERC has issued orders, which, among other things, permit the ERCOT members to avoid Federal regulation of rates as the result of the ordered interconnections with another interstate connected utility.

Energy Policy Act of 2005. The U.S. Congress amended the Federal Power Act in 2005 to authorize the FERC to approve transmission reliability standards developed by NERC. Once approved, the transmission reliability standards are applicable to transmission systems in all states, excepting Alaska and Hawaii. The reliability standards are applicable to transmission operators in ERCOT, including MOU's.

Proposed Federal Legislation

Many bills have been introduced in the United States Congress to deregulate the electric utility industry on the Federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (*i.e.*, retail wheeling). In addition, various bills have been introduced that would impact the issuance of tax-exempt bonds for electric transmission and generation facilities. No prediction can be made as to whether these bills or any future proposed Federal bills will become law or, if they become law, what their final form or effect would be.

Environmental Regulation

General. Electric utilities are subject to numerous environmental regulations administered at the Federal and State level. Over time such regulations have become more stringent as water and air quality goals have tightened, and as pollution control technologies have advanced. Although it is expected that this trend will continue into the future, the uncertainty associated with future regulations, coupled with the piecemeal and uncoordinated manner in which they are implemented, presents the electric utility industry with a formidable challenge. Consequently, the City cannot predict whether the generating units at the System Units and Gibbons Creek, will always be in compliance with present or future regulations, or will always be able to obtain all required environmental licenses and permits. In addition, more stringent environmental requirements may require significant upgrades in environmental controls, reduced operating levels, increased operating costs, or, where the necessary upgrades are not economical, the shutdown of affected generating units.

Air Emissions New Source Review. The Federal Clean Air Act ("FCAA"), the Texas Clean Air Act ("TCAA"), and the agency rules implementing these statutes regulate air emissions from power plants through a number of different programs. For example, both the FCAA and TCAA contain new source review ("NSR") requirements that require pre-construction permits authorizing the discharge of air emissions from new or modified facilities. Over the last several years, the EPA has conducted a major enforcement initiative targeting older coal-fired electric generation plants, and has asserted that many of these plants underwent major modifications in the past without appropriate permit authorization under the NSR rules. One of the goals of this enforcement initiative is to force these older coal plants to go through the air permitting process and then install significant upgrades to their air emission controls consistent with current permitting criteria.

There has been considerable controversy over what kinds of activities or changes represent a facility modification that requires a permit amendment as distinguished from activities that are considered routine maintenance. Several federal appellate courts, including the U.S. Supreme Court, have recently addressed aspects of this controversy and EPA also sought to clarify certain aspects of the NSR applicability rules, but considerable potential uncertainty remains. Up to this point, the System Units and Gibbons Creek have not been subject to investigation as part of this enforcement initiative. Moreover, as is explained below, Gibbons Creek has completed facility changes that have reduced air emissions of sulfur dioxide and nitrogen oxides.

Acid Rain. In 1990, legislation was signed into law that significantly amended the FCAA (the "1990 Amendments"). Among other requirements, the 1990 Amendments addressed acid rain deposition through the reduction of sulfur dioxide and nitrogen oxide emissions from electric utility power plants, particularly those fueled by coal. In an innovative approach to pollution control, sulfur dioxide emissions were limited by means of a market-based emission cap and trade program, which was implemented in two phases. The Gibbons Creek facility was subject to Phase II of this program, which went into effect in year 2000. Under the program, the unit received sufficient sulfur dioxide allowances to sustain current operating requirements while utilizing PRB coal. In addition, in 2011 the Gibbons Creek facility completed a scrubber refurbishment project which further reduced sulfur dioxide emissions. Sulfur dioxide allowances are not necessary for the System Units since the units are fired on natural gas and natural gas combustion does not generate significant amounts of sulfur dioxide.

The 1990 Amendments also required coal units to reduce nitrogen oxide emissions. As with the sulfur dioxide program, the nitrogen oxide program consisted of a two-phase strategy, with the first set units achieving compliance in 1996 and the second in 2000. Gibbons Creek was covered under Phase II and based on the nitrogen oxide emission reduction projects discussed below, has achieved compliance with these rules.

Ambient Air Quality Standards. The EPA has established national air quality standards for six regulated pollutants: ozone, lead, carbon monoxide, sulfur dioxide, nitrogen dioxide, and particulate matter. When a pollutant concentration in an area exceeds a standard, the area is classified as "nonattainment" for that pollutant. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so called State Implementation Plan or "SIP" entails enforceable control measures and time frames.

For ozone non-attainment SIPs, the emission reductions are generally targeted at nitrogen oxide and volatile organic compound emission sources because it is believed that the chemical reaction between these compounds in the presence of sunlight leads to ozone formation. While Gibbons Creek is not located in an ozone non-attainment area, the TCEQ has concluded that emissions from electric utilities located in central and east Texas are contributing to ozone formation in the three non-attainment areas located in Texas under the 1-hour ozone standard: the Dallas-Fort Worth, Houston-Galveston, and Beaumont-Port Arthur areas. As a result in April 2000, the TCEQ issued final rules that required the reduction of nitrogen oxide emissions in large electric utilities located in 31 east and central Texas counties, including Grimes County. Over the last several years, Gibbons Creek underwent a series of upgrades to reduce nitrogen oxide emissions, and is in compliance with these rules.

In July 1997, EPA adopted a revised and more stringent ozone standard based on an 8-hour average of ozone concentrations, as compared to the prior standard based on a 1-hour average. TCEQ was required to submit to EPA new SIP rules in June 2007 to address compliance with this new 8-hour ozone standard. While TCEQ submitted SIP revisions that provided a plan for this revised standard in the Dallas-Fort Worth area, the agency was not able to develop a complete plan for the Houston-Galveston area. Up to this point, implementation of the 8-hour SIP in these two non-attainment areas has not resulted in additional control requirements for the System Units and Gibbons Creek. While there are no currently pending SIP rule revisions that apply to the System Units and Gibbons Creek, it is possible that such rules could be included in future modifications to either the Dallas-Fort Worth or Houston-Galveston SIPs.

It is also possible that additional changes to the ozone standard could require additional nitrogen oxide controls. On September 2, 2011, President Obama asked the EPA to withdraw proposed ozone regulations reducing the standard to between 60 parts per billion ("ppb") and 70 ppb. The ozone standard is currently undergoing additional review, and is consequently expected to be tightened again. The American Lung Association and several environmental groups have sued EPA over their withdrawal of the proposed ozone regulations. As a result of any of these changes, if the environmental agencies elect to impose additional nitrogen oxide rules on electric generation sources within, or the counties adjacent to, the Dallas-Fort Worth or Houston-Galveston non-attainment areas, it is possible that these controls could require operating or mechanical changes at the System Units and/or Gibbons Creek.

In 2005, the EPA issued the final Clean Air Interstate Rule ("CAIR") to further reduce sulfur dioxide and nitrogen oxide emissions from power plants. The sulfur dioxide and nitrogen oxide reductions required under the CAIR were based on a cap and trade approach (market based) in which a cap is put on the total quantity of emissions allowed in 28 eastern states (including Texas), emitters are required to have allowances for each ton emitted, and emitters are allowed to trade emissions under the cap. The CAIR reductions were proposed to be phased in between 2009 and 2015. On July 11, 2008, the United States Court of Appeals for the D.C. Circuit invalidated and vacated in its entirety CAIR, stating that a regional cap-and-trade program cannot be used to facilitate attainment of the ozone and fine particulate ambient air quality standards. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating the CAIR. In December 2008, the D.C. Circuit issued a decision remanding the CAIR to the EPA without vacatur. The EPA was required to conduct a new rulemaking to modify the CAIR in accordance with the court's July 11, 2008 opinion. CAIR as initially finalized in 2005 remains in effect until the new EPA rule takes effect.

In response to the D.C. Circuit's decision, EPA finalized the Cross State Air Pollution Rule ("CSAPR") on July 6, 2011. CSAPR establishes an interstate emissions trading system that caps emissions of sulfur dioxide and nitrogen oxide from electric generating units in 27 states. CSAPR establishes four separate emissions cap and trade programs: an annual nitrogen oxide trading program, an ozone season nitrogen oxide trading program, and two separate sulfur dioxide trading programs. Sources subject to CSAPR are allowed to trade allowances from any CSAPR source in their state's group. CSAPR trading programs were to begin in January 2012, however, the D.C. Circuit vacated CSAPR and remanded rule-making to the EPA. In the meantime, CAIR has been reinstated until replacement rules are developed. On April 9, 2014, the Supreme Court reversed the decision that the D.C. Circuit Court had made regarding CSAPR. The D.C. Circuit Court's previous decision had vacated the CSAPR in its entirety. The Supreme Court remanded the case back to the D.C. Circuit Court for additional proceedings consistent with the Supreme Court opinion. This does not mean that EPA can begin immediate implementation of CSAPR – additional process is necessary at the D.C. Circuit and potentially EPA, so CAIR remains in place. It is unclear at this time when or if a replacement rule for CAIR and CSAPR will be expected.

Both the System Units and Gibbons Creek have sufficient emission credits under the currently applicable CAIR requirements for their expected nitrogen oxide and sulfur dioxide emissions. The System Units, due to seasonal operation, have accumulated (banked) emission credits in excess of what is currently required for annual plant operations. Gibbons Creek recently completed construction and commissioning of a limestone slurry scrubber that removes various contaminants from its vent gas including sulfur dioxide. The scrubber began operation in April 2011, and this new scrubber has reduced sulfur dioxide emissions sufficiently that Gibbons Creek will have a surplus of sulfur dioxide credits under the currently applicable CAIR program.

Both the System Units and Gibbons Creek believe they will also have, or be able to purchase, sufficient credits under future regulatory requirements for their near term expected nitrogen oxide emissions. In the future, the System Units and Gibbons Creek may need to purchase nitrogen oxide credits or install additional nitrogen oxide emission controls depending upon operating rates and the final allocation of emission credits under a new program that will replace CAIR. TMPA and the System Units hope to comply with nitrogen oxide limits through the use of combustion controls. In the event additional nitrogen oxide credits are needed, TMPA believes that it will have the option of purchasing such credits.

Mercury Air Emissions. Also in 2005, the EPA published a final rule requiring reductions of mercury emissions from coal-fueled generation plants. The Clean Air Mercury Rule ("CAMR") was based on a cap and trade approach on a nationwide basis. The mercury reductions were proposed to be phased in between 2010 and 2018. In February 2008, the United States Court of Appeals for the District of Columbia Circuit struck down CAMR. The court charged EPA with writing a replacement rule that will require the use of a fixed Maximum Achievable Control Technology ("MACT") standard instead of the cap-and-trade credit program previously envisioned under CAMR. The MACT standard is defined as the average emission limit attained by the best-performing 12% of electrical generating units. In order to determine this limit, the EPA required nationwide stack emissions testing in summer 2010. The new standards were issued under the new name of Mercury and Air Toxics Standards ("MATS") in February 2012 with a compliance deadline of April 16, 2015 (with provision for a one-year extension, which TMPA was granted on February 28, 2013). TMPA is investigating mercury control technologies including the use of its refurbished scrubber to meet the expected standards. Natural gas fired EGUs, such as the System Units, are not subject to this rule.

The regulatory programs that address air emissions from the System Units and Gibbons Creek facilities are complex and still developing in many respects. The installation of additional pollution control equipment to address new emission reduction requirements (assuming any such equipment should prove necessary) may require significant capital expenditures and may also significantly increase operating and maintenance costs. Finally, many of the regulatory programs being discussed are "cap and trade" programs and may require the purchase of emission allowances or credits to authorize continued operations, when on-site emission reductions are not possible or economical. At this time, the City cannot predict the final cost to it arising from these developing changes to the environmental air emissions rules applicable to its operations.

Climate Change and Emissions of Carbon Dioxide. Legislation has been introduced during recent sessions of the U.S. Congress that would regulate emissions of "greenhouse gases" or "GHG", including carbon dioxide, which has not been previously regulated as a pollutant in the United States. In addition, at least nine states in the Northeast and five states in the West have declined to wait on Congress to develop and implement climate control legislation and have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. It is not possible at this time to predict if or when Congress may act on climate change legislation or to predict the requirements included in such legislation on the System Units or Gibbons Creek.

On December 15, 2009, the EPA published its final findings that emissions of carbon dioxide, methane and other GHG present an endangerment to human health and the environment because emissions of such gases are, according to EPA, contributing to warming of the earth's atmosphere and other climatic changes. These findings by EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of GHG under existing provisions of the FCAA. In late September 2009, EPA had proposed two sets of regulations in anticipation of finalizing its findings that would require a reduction in emissions of GHG from motor vehicles and, also, could trigger permit review for GHG emissions from certain stationary sources. In addition, on September 22, 2009, EPA issued a final rule requiring the reporting of GHG emissions from specified GHG emission sources in the United States including large electrical generation facilities beginning in 2011 for emissions occurring after January 1, 2010. It may take EPA several years to adopt and impose regulations limiting emissions of GHGs; large GHG sources, such as Gibbons Creek, may be included within any GHG regulatory program developed by EPA.

Finally, on June 21, 2011, the U.S. Supreme Court reversed a decision by the Court of Appeals for the Second Circuit in *State of Connecticut, et al. v. American Electric Power Co. Inc., et al.*, which addressed common law claims arising from alleged damages caused by GHGs. The Supreme Court found unanimously that the plaintiffs' federal common law right to seek the abatement of GHGs as contributing to a public nuisance had been displaced by the FCAA. The Court expressly rejected the Second Circuit Court of Appeals' holding that common law rights are only displaced once regulations are in place. The Court left open the question of whether state common law nuisance claims against emitters of greenhouse gases may proceed. A similar case, *Native Village of Kivalina v. Exxon Mobil Corp.*, is currently on appeal to the Ninth Circuit that raises state common law claims and may set a precedent on these types of claims. The City and TMPA are not included in these lawsuits.

Passage of climate control legislation by Congress or restrictions on emissions of GHGs imposed by EPA, TCEQ or civil litigation could have an adverse effect on the City's Electric System and Gibbons Creek and TMPA. The City cannot predict whether climate change legislation will be enacted in this or any future session of Congress, or whether State legislation could be enacted that would regulate carbon dioxide emissions. Moreover, the City cannot predict the financial impact that any such legislation, if finally enacted and signed into law, would have on the City or the electric market in general.

<u>Wastewater Discharge and Federal Clean Water Act.</u> Under Section 316(b) of the Federal Clean Water Act and the Gibbons Creek wastewater discharge permit, TMPA was obligated to conduct a one year study of fish mortality caused by impingement of the fish on screens at the Gibbons Creek cooling tower water intake. In July 2007 in response to legal challenges to the cost benefit analysis provisions of the underlying federal rules, the EPA suspended implementation of its rules. On April 1, 2009, the U.S. Supreme Court ruled that the EPA may consider costs when determining which technology option each site should implement under the intake rules. On March 28, 2011, EPA proposed revised regulations. For existing facilities that are designed to draw at least 2 million gallons per day of cooling water, the proposed standards would set a performance standard for fish mortality due to impingement against intake screens, and would require entrainment standards to be determined on a case-by-case basis.

Gibbons Creek completed an Impingement Mortality and Entrapment Characterization Study and submitted it to the Agencies on October 27, 2009. The fish mortality rate at Gibbons Creek does not appear to be significant when assessed against the overall fish populations within the Gibbons Creek Reservoir. Under 316(b), the Ray Olinger Power Plant (System Unit) completed and submitted an Impingement Mortality Characterization Study in March 2008. The report concludes that annual fish impingement is exceptionally low at the Olinger Plant due to seasonal operation. Nevertheless, the City is not in a position to assess what, if any, impact these studies may have on future wastewater permit requirements or the possibility of new environmental control costs being imposed on the Olinger Plant or Gibbons Creek facility.

On August 19, 2013, the EPA proposed a regulation – the Steam Electric Power Generating Effluent Guidelines – that is intended to strengthen controls on discharges from certain steam electric power plants. The stringency of the final rule is under EPA review. The rule was to be finalized by May 22, 2014, but the EPA has requested an extension to this deadline.

<u>Solid Waste Disposal.</u> The System Units and Gibbons Creek produce industrial solid wastes and Gibbons Creek maintains a landfill for waste disposal. These facilities are generally responsible for the liabilities associated with proper waste disposal and any related site contamination based upon improper management of these wastes. Hazardous substances at the System Units could expose the City to potential liabilities associated with the cleanup of contaminated soil and groundwater under federal or state "Superfund" statutes. If coal ash produced at the Gibbons Creek facility were to be reclassified as a hazardous substance, it could expose TMPA to potential liabilities. Currently, most of the coal ash produced at Gibbons Creek is sold to third parties to be beneficially reused, but historically ash and scrubber sludge (no longer generated since the switch to PRB Basin coal) were disposed of in TMPA's on-site landfills. TMPA retains management and environmental compliance responsibilities for these waste disposal facilities.

The combustion of coal to generate electric power creates large quantities of coal combustion residuals ("CCR"). At present, CCR management is not generally regulated under the hazardous waste rules. On June 21, 2010, however, EPA proposed rules that would classify CCR as a hazardous waste. These proposed rules are very controversial and generated hundreds of thousands of public comments. On October 12, 2011, EPA published a notice in the Federal Register requesting additional comments regarding various matters related to these proposed rules, including potential beneficial reuse of CCR, and indicating that the agency was updating its risk assessment and regulatory impact analysis for the proposed rules. The City cannot predict the final outcome of these proposed rules. Regulation of CCR as a hazardous waste would substantially increase Gibbons Creek's operating costs through increased disposal costs and would likely require facility changes to comply with hazardous waste management requirements.

<u>TMPA Mine Closure and Related Remediation Obligations.</u> Up until 1996, TMPA mined the coal utilized at the Gibbons Creek facility at the 15,000 acre lignite mine located adjacent to the power plant. TMPA shut down this mining operation following conversion to low-sulfur PRB coal. TMPA is obligated to perform certain remediation and land reclamation activities at the closed mining sites, and has certain bonding requirements to provide financial assurance for completion of these remediation activities. In recent years, TMPA has completed most of the active remediation work. Post-reclamation monitoring and the final completion of the site remediation will, however, continue for several more years, and TMPA will retain the financial obligation to complete this work. As of September 30, 2014, TMPA's bonding requirement for the mine reclamation was approximately $32.25 million, of which approximately $13.5 million is self-bonded.

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DEBT INFORMATION

TABLE 4 – ELECTRIC SYSTEM REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Prior Lien Debt Service[1]			Outstanding New Series Debt Service			The Bonds (New Series)[2]			Total Electric Utility Syst. Revenue Debt Service	% of Principal Retired
	Principal	Interest	Total D/S	Principal	Interest	Total D/S	Principal	Interest	Total D/S		
2015	$ 5,205,000	$ 2,724,110	$ 7,929,110	$ 1,880,000	$ 4,922,016	$ 6,802,016	$ 85,000	$ 314,320	$ 399,320	$ 15,130,446	
2016	4,685,000	2,520,051	7,205,051	2,695,000	4,103,875	6,798,875	1,400,000	565,800	1,965,800	15,969,726	
2017	4,860,000	2,343,604	7,203,604	2,835,000	3,965,625	6,800,625	1,455,000	515,700	1,970,700	15,974,929	
2018	5,025,000	2,164,041	7,189,041	2,980,000	3,820,250	6,800,250	1,510,000	456,400	1,966,400	15,955,691	
2019	5,230,000	1,968,719	7,198,719	3,135,000	3,667,375	6,802,375	1,575,000	394,700	1,969,700	15,970,794	26.37%
2020	5,450,000	1,748,729	7,198,729	3,295,000	3,506,625	6,801,625	1,635,000	330,500	1,965,500	15,965,854	
2021	5,695,000	1,511,294	7,206,294	3,465,000	3,337,625	6,802,625	1,705,000	263,700	1,968,700	15,977,619	
2022	5,930,000	1,262,091	7,192,091	3,640,000	3,160,000	6,800,000	1,785,000	184,975	1,969,975	15,962,066	
2023	6,185,000	1,003,860	7,188,860	3,830,000	2,973,250	6,803,250	1,875,000	93,475	1,968,475	15,960,585	
2024	5,310,000	768,913	6,078,913	4,025,000	2,776,875	6,801,875	1,940,000	27,200	1,967,200	14,847,988	59.37%
2025	4,285,000	580,273	4,865,273	4,230,000	2,570,500	6,800,500	390,000	3,900	393,900	12,059,673	
2026	3,135,000	422,479	3,557,479	4,450,000	2,353,500	6,803,500	-	-	-	10,360,979	
2027	3,285,000	271,568	3,556,568	4,675,000	2,125,375	6,800,375	-	-	-	10,356,943	
2028	1,745,000	150,575	1,895,575	4,915,000	1,885,625	6,800,625	-	-	-	8,696,200	
2029	1,090,000	80,719	1,170,719	5,165,000	1,633,625	6,798,625	-	-	-	7,969,344	81.48%
2030	590,000	40,950	630,950	5,430,000	1,368,750	6,798,750	-	-	-	7,429,700	
2031	615,000	13,838	628,838	5,710,000	1,090,250	6,800,250	-	-	-	7,429,088	
2032	-	-	-	6,005,000	797,375	6,802,375	-	-	-	6,802,375	
2033	-	-	-	6,310,000	489,500	6,799,500	-	-	-	6,799,500	
2034	-	-	-	6,635,000	165,875	6,800,875	-	-	-	6,800,875	100.00%
	$ 68,320,000	$ 19,575,813	$ 87,895,813	$ 85,305,000	$ 50,713,891	$ 136,018,891	$ 15,355,000	$ 3,150,670	$ 18,505,670	$ 242,420,374	

(1) Excludes the Refunded Prior Lien Bonds.
(2) Net Effective Interest Rate calculated at 1.77%.

TABLE 5 - AUTHORIZED BUT UNISSUED REVENUE BONDS

The City has no authorized but unissued System revenue bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL SYSTEM REVENUE BONDS. . . The City does not anticipate the issuance of additional System revenue bonds for the remainder of this fiscal year.

CAPITAL IMPROVEMENT PROGRAM. . . . The City Council annually adopts a Capital Improvement Program (the "CIP") that consists of projects that involve the construction of infrastructure and major facilities and the acquisition of large equipment. The CIP, which is adopted on a calendar-year basis, details expected resources and planned expenditures over a five-year period, lists projects for each capital improvement fund and provides descriptions of projects and funding sources. The CIP budget differs from the City's operational budget because of its "multi-year" focus, which means that a project can span more than one fiscal year. In approving the CIP, the City Council actually appropriates the funds for the plan year, while approving, in concept, the plan for future years. The CIP is developed for planning purposes and may identify projects that will be deferred or omitted entirely in future years; only projects for the current fiscal year are included in the City's adopted budget. In addition, as conditions change, new projects may be added that were not identified in the prior year programs.

For 2014, the CIP includes approximately $173.8 million in total budgeted expenditures for all City capital projects, including general obligation, water, wastewater, and electric projects. The total CIP for the five-year period of 2014-2018 includes approximately $559 million of anticipated capital improvement projects, of which $172.6 million is associated with System improvements. The City Council adopted CIP is available on the City's website at: http://www.ci.garland.tx.us/gov/ab/budget/cip.asp.

COMMERCIAL PAPER PROGRAM. . . . In 2012, the City initiated a three-year, $135 million tax-exempt commercial paper program (the "2012 Commercial Paper Program") for the System. The 2012 Commercial Paper Program consists of a $67.5 million Commercial Paper Notes, Series 2012A and a $67.5 million Commercial Paper Notes, Series 2012B (collectively, the "2012 Commercial Paper Notes"), which are subordinate to outstanding Prior Lien Bonds. The Program was established in response to the City's participation in the construction of transmission facilities associated with state's competitive renewable energy zones ("CREZ") initiative. The City has fully funded the CREZ project through the 2012 Commercial Paper Program, as well as other System improvements. With the completion of the City's CREZ transmission facilities and certain other System improvements, the City refunded the outstanding 2012 Commercial Paper Notes into long-term, fixed-rate debt and closed the 2012 Commercial Paper Program. Upon the closing of the 2012 Commercial Paper Program, the City established a smaller, revolving commercial paper program for System capital improvements. The new commercial paper program is sized at $60 million for a four-year term. The new commercial paper program will be subordinate to outstanding Prior Lien Bonds, the Bonds and any Bonds Similarly Secured.

PENSION FUND

PLAN DESCRIPTION. . . The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. A copy of separately audited financial statements of the plan can be obtained from the TMRS internet site (tmrs.org) or by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

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

Members can retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after five years, but he/she must leave his/her accumulated contributions in the plan. If a member withdraws his/her own money, he/she is not entitled to the employer-financed monetary credits, even if he/she was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

CONTRIBUTIONS

The contribution rate for employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are 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 actuarial liability over the remainder of the plan's amortization period. 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. 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 is the basis for the rate and the calendar year when the rate goes into effect.

The City's required contribution rate for FY13 was decreased from 12.07% in calendar 2012 to 11.07% in 2013.

The City's total payroll in fiscal year 2013 was $150,364,207, and the City's contributions were based on a payroll of $126,390,079. Both the City and the covered employees made the required contributions, amounting to $14,913,038 for the City and $8,847,305 (7 %) for the employees.

A summary of City and employee contributions for the fiscal year ending September 30, 2013, follows:

	Gross	Normal		Unfunded Actuarial Liability		Death and Disability Benefit		Total	Total
	Earnings	Rate	Contribution	Rate	Contribution	Rate	Contribution	Rate	Contribution
City Contribution:									
Months in calendar year 2012	$ 33,891,622	10.25%	$ 3,473,891	1.65%	$ 559,212	0.17%	$ 57,616	12.07%	$ 4,090,719
Months in calendar year 2013	92,498,457	10.43%	9,647,589	1.09%	1,008,233	0.18%	166,497	11.70%	10,822,319
Total Fiscal Year	$126,390,079		$ 13,121,480		$ 1,567,445		$ 224,113		$ 14,913,038
Employee Contribution:									
Months in calendar year 2012	$ 33,891,622	7.00%	$ 2,372,414	-	-	-	-	7.00%	$ 2,372,414
Months in calendar year 2013	92,498,457	7.00%	6,474,892	-	-	-	-	7.00%	6,474,892
Total Fiscal Year	$ 126,390,079		$ 8,847,305		-		-		$ 8,847,305
Total City and Employee Contributions			$21,968,786		$ 1,567,445		$ 224,113		$ 23,760,344

Three Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$21,097,855	100%	--
2012	$16,792,548	100%	--
2013	$14,913,038	100%	--

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Actuarial Assumptions

	Effective 12/31/2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	24.3 Years - Closed Period
Asset Valuation Method	10-year Smoothed Market (to accurately reflect the requirements of GASB stmt., No. 25, paragraphs 36e and 138)
Investment Rate of Return	7.0%
Projected Salary Increases	Varies by age and service
Includes Inflation At	3.0%
Cost-of-living Adjustments	None

Schedule of Funding Information

Actuarial valuation date	12/31/2012
Actuarial value of assets	$ 704,046,535
Actuarial accrued liability (AAL)	$ 713,843,979
Unfunded actuarial accrued liability (UAAL)	$ 9,797,444
Funded ratio	98.6%
Annual covered payroll (actuarial)	$ 124,371,393
UAAL as % of covered payroll	7.9%

OTHER POST EMPLOYMENT BENEFITS. . . In addition to providing 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; and
- 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.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the years ended September 30, 2011, 2012 and 2013 the related information is listed below:

	2011	2012	2013
Annual Required Contribution	$ 5,692,690	$ 7,129,941	$ 7,420,023
Interest on Net OPEB Obligation	343,319	443,802	582,464
Adjustment to Annual Required Contribution	(300,316)	(430,688)	(613,259)
Annual OPEB Cost	5,735,693	7,143,055	7,389,228
Employer contribution to trust fund	-	-	(100,000)
Employer Contributions with interest	(3,620,249)	(4,223,866)	(3,609,475)
Increase in Net OPEB Obligation	2,115,444	2,919,189	3,679,753
Net OPEB Obligation beginning of year	7,227,764	9,343,208	12,262,397
Net OPEB Obligation end of year	$ 9,343,208	$ 12,262,397	$ 15,942,150

In addition to the employer contribution, the retirees paid $2,216,266 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4% discount rate, and level percent of pay amortization) are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2011	$ 5,735,693	$ 3,620,249	63.1%	$ 9,343,208
9/30/2012	$ 7,143,055	$ 4,223,866	59.1%	$ 12,262,397
9/30/2013	$ 7,389,228	$ 3,709,475	48.8%	$ 15,942,150

Actuarial Assumptions

Actuarial Valuation Date		10/01/2011
Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	26 Years - Closed Period
Investment Rate of Return	-	7.25%
Projected Salary Increases	-	Varies by age and service
Includes Healthcare cost trend at	-	9.5% (the City's portion of the annual increase is expected to be capped at 3%)
Inflation rate	-	3.0%
Cost-of-living Adjustments	-	None

Schedule of Funding Information

Actuarial valuation date	10/01/2011
Actuarial value of assets	$845,836
Actuarial accrued liability (AAL)	$86,815,833
Unfunded actuarial accrued liability (UAAL)	$85,969,997
Funded ratio	1.0%
Annual covered payroll (actuarial)	$129,200,000
UAAL as % of covered payroll	67%

The schedule of funding progress for the OPEB plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. 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 of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Supplemental Death Benefits Plan (SDBF)

Plan Description: The City participates in the TMRS Supplemental Death Benefits Fund (SDBF), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS); this is a separate trust administered by the TMRS Board of Trustees. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

Funding Requirements: The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to SDBF for the years ended September 30, 2013, 2012 and 2011 were $224,113, $231,341, and $273,359 respectively.

SELF INSURANCE

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of $5,947,218 were collected from funds that participate in these. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2013, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2012 claims payable as of September 30, 2013 was estimated at $6,721,727.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of $3,885,997 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2013 a short-term liability of $1,280,274 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2012 and 2013 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year – End	Current Portion
Self Insurance – 2012	$ 6,198,614	$ 2,253,280	$ 523,113	$ 2,253,280	$ 6,721,727	$ 2,954,491
Self Insurance – 2013	6,721,727	2,448,740	-	2,448,740	6,721,727	2,954,491
Long-Term Disability – 2012	3,891,025	414,216	(5,028)	414,216	3,885,997	507,112
Long-Term Disability – 2013	3,885,997	289,793	-	289,793	3,885,997	507,112
Group Health – 2012	3,276,573	12,478,702	(2,433,559)	12,478,702	843,014	843,014
Group Health – 2013	843,014	15,378,482	437,260	15,378,482	1,280,274	1,280,274

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FINANCIAL INFORMATION

TABLE 6 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2014 (5)	2013	2012	2011	2010
Operating Revenues					
Charges for Services (1)	$ 376,657,908	$ 296,866,570	$ 222,228,397	$ 222,638,789	$ 231,758,075
Other	725,327	891,631	1,472,387	866,189	710,540
Total Operating Revenues	$ 377,383,235	$ 297,758,201	$ 223,700,784	$ 223,504,978	$ 232,468,615
Operating Expenses:					
Salaries and Benefits	$ 21,614,344	$ 21,106,404	$ 22,885,920	$ 22,821,422	$ 22,588,554
Demand Charges (2)	49,209,149	56,788,485	22,951,019	24,748,777	51,494,491
Fuel Purchases (3)	214,611,119	136,202,089	59,878,679	61,418,646	69,729,685
Maintenance Repairs and Supplies	11,232,865	12,169,585	15,082,597	9,781,439	9,701,390
Insurance and Other Expenses	3,859,840	3,057,223	2,466,486	2,009,196	2,100,333
Insurance Claims Payable	305,748	426,586	-	244,524	298,241
General and Administrative	12,121,668	11,421,559	11,190,776	12,166,940	11,889,485
Capitalized General and Administrative	-	-	(516,092)	(1,440,576)	(1,335,982)
Total	$ 312,954,733	$ 241,171,931	$ 133,939,385	$ 131,750,368	$ 166,466,197
Net Available for Debt Service	$ 64,428,502	$ 56,586,270	$ 89,761,399	$ 91,754,610	$ 66,002,418
Debt Service Requirements	$ 9,929,481	$ 10,140,808	$ 10,291,124	$ 10,227,434	$ 10,229,755
Debt Service Coverage (4)	6.49x	5.58x	8.05x	8.97x	6.45x
Electric Customers	69,262	69,126	68,396	68,034	68,001

(1) The increase in FYE 2013 Charges for Services from FYE 2012 is primarily a result of the City's addition of four (4) new wholesale customers; two (2) cooperative electric utilities and two (2) municipally-owned electric utilities. See "THE SYSTEM – Wholesale Energy Customers".
(2) A refunding by TMPA in 2010 resulted in lower debt service payments for TMPA in 2011 and 2012, which correspondingly reduced Demand Charges to the City for FYE 2011 and 2012. See "THE SYSTEM – TMPA Debt Service" for information regarding future expected demand charges.
(3) The increase in FYE 2013 Fuel Purchases from FYE 2012 is primarily a result of the City's addition of four (4) new wholesale customers: two (2) cooperative electric utilities and two (2) municipally-owned electric utilities. See "THE SYSTEM – Wholesale Energy Customers".
(4) Excludes transfers from Rate Mitigation Fund. See "Rate Mitigation Fund" below. As of May 15, 2014, the City has $167,185,000 aggregate principal amount of general obligation debt outstanding that it considers to be self-supporting from the surplus Net Revenues of the System (the "Self-Supporting GO Debt"). Other than a de minimus $1,000 pledge of surplus Net Revenues to a portion of the outstanding Self-Supporting GO Debt, the Net Revenues of the System ARE NOT pledged in any manner to the Self-Supporting GO Debt. Nevertheless, it is the City's current intention to pay the Self-Supporting GO Debt from annual transfers of surplus Net Revenues of the System. The average annual debt service on the Self-Supporting GO Debt is $14,603,188 and the maximum annual debt service is $14,796,188 in the fiscal year ending September 30, 2018. The final maturity of the currently outstanding Self-Supporting GO Debt is during the fiscal year ending September 30, 2030.
(5) Preliminary, unaudited financials.

RATE MITIGATION FUND . . . The City maintains, by charter, a rate mitigation fund that can only be used to reduce debt obligations of the City incurred in connection with providing electric energy to the City or to mitigate the City's future electric utility rate requirements. As of September 30, 2013, the rate mitigation fund balance was $174,951,776. At present, the final maturity of TMPA generation system indebtedness is September 1, 2018. (See also "THE SYSTEM – TMPA Debt Service"). In anticipation of increases in TMPA's debt service requirements through final maturity in 2018, the City anticipates drawing upon the rate mitigation fund as needed to reduce the degree of possible rate increases. In addition, the transfer of rate mitigation fund monies into the System's operating fund shall be used to support System rate covenant requirements. The City made the initial transfer from the rate mitigation fund to the System's operating fund during the fiscal year ending September 30, 2013 in the amount of $18,750,000. The City had originally budgeted a transfer of approximately $31,150,000 for such fiscal year. The City budgeted an additional $8,000,000 to be transferred to the System's operating fund from the rate mitigation fund during the fiscal year ending September 30, 2014 however, because of the System's better than budgeted financial performance for FY14, no monies were transferred from the rate mitigation fund into the System's operating fund. In anticipation of the final maturity of the TMPA generation debt service as described above, the City currently expects to transfer on average between $30-35 million each year from the rate mitigation fund to the system's operating fund during the fiscal years ending September 30, 2015, 2016, 2017 and 2018. The actual amounts of transfers could be more or less than such anticipated amounts.

HEDGING ACTIVITIES . . . In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion price volatility, the City has established a Risk Management Program. This program was authorized by the City Council and is led by the Risk Oversight Committee. Under this program, the City enters into forward contracts for natural gas and energy for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. The City typically settles these contracts by delivery of certain commodities.

TABLE 7 - COVERAGE AND FUND BALANCES (1)

Average Annual Principal and Interest Requirements, 2015-2034	$	12,121,019	
Coverage of Average Annual Requirements by 2014 Net Income (4)		5.30x	
Maximum Principal and Interest Requirements, 2021	$	15,977,619	
Coverage of Maximum Requirements by 2014 Net Income (4)		4.02x	
Prior Lien Bonds Outstanding as of 1/1/2015	$	68,320,000	(2)
New Series Bonds Outstanding as of 1/1/2015		85,305,000	
The Bonds (New Series)		15,355,000	
TOTAL Projected Electric Utility System Revenue Bonds	$	168,980,000	
Debt Service Reserve Fund Balance, 1/1/2015 (3)	$	-	

(1) Includes the Prior Lien Bonds and the subordinate new series Bonds being offered herein.
(2) Excludes the Refunded Obligations.
(3) The City is not required to have a reserve fund unless the coverage ratio dips below 1.5x. The City may fund such reserve fund with a surety bond.
(4) Based on 2014 Unaudited Financials.

TABLE 8 - VALUE OF THE SYSTEM

	For Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Electric System	$ 426,218,077	$ 417,549,738	$ 397,729,870	$ 386,619,954	$ 359,532,179
Land	5,078,858	5,065,576	3,643,326	3,566,290	3,023,404
Total Value	$ 431,296,935	$ 422,615,314	$ 401,373,196	$ 390,186,244	$ 362,555,583
Less: Accumulated Depreciation	170,757,000	162,225,886	156,311,108	149,914,710	139,686,456
	$ 260,539,935	$ 260,389,428	$ 245,062,088	$ 240,271,534	$ 222,869,127
Plus: Construction in Progress	83,968,380	10,272,210	23,518,422	20,551,728	31,557,526
Net Property, Plant and Equipment	$ 344,508,315	$ 270,661,638	$ 268,580,510	$ 260,823,262	$ 254,426,653

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TABLE 9 - CITY'S EQUITY IN SYSTEM

	For Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Net Property, Plant and Equipment	$ 344,508,315	$ 270,661,638	$ 268,580,510	$ 260,823,262	$ 254,426,653
Cash and Investments	247,586,669	257,307,224	220,178,652	184,132,639	141,803,842
Other Assets	187,874,600	169,269,558	167,506,263	175,655,693	28,834,118
Total Assets	$ 779,969,584	$ 697,238,420	$ 656,265,425	$ 620,611,594	$ 425,064,613
Revenue Bonds Payable	$ 93,973,082	$ 100,312,623	$ 106,411,602	$ 102,585,000	$ 102,585,000
General Obligation Bonds Payable	41,434,985	46,589,201	51,583,274	49,680,000	49,680,000
Certificates of Obligation Payable	136,680,781	137,563,637	138,401,554	131,537,998	4,652,997
Unamortized Bond Issue Cost	(2,944,700)	(3,304,726)	(3,739,536)	4,001,652	4,471,449
Other Liabilities	116,818,038	27,951,877	14,768,222	14,247,425	12,209,112
Total Liabilities	$ 385,962,186	$ 309,112,612	$ 307,425,116	$ 302,052,075	$ 173,598,558
City's Equity in System	$ 394,007,398	$ 388,125,808	$ 348,840,309	$ 318,559,519	$ 251,466,055
Percent Equity in System	50.52%	55.67%	53.16%	51.33%	59.16%

FINANCIAL POLICIES

Basis of Accounting . . . All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used by all governmental fund types and agency funds.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity is segregated into investments in capital assets, net of related debt, and registered and unrestricted net assets. Proprietary fund-type operating statements represent increases and decreases in net total assets. Proprietary fund types are accounted for using the accrual basis of accounting.

General Fund Balance . . . It is the City's policy to maintain a balance which is greater than 30 days of adjusted working capital, less debt service, in immediately accessible cash and investments. If the fund balance is drawn down in any one year, the fund balance will be restored in the following year.

Use of Bond Proceeds . . . It is the City's policy that debt will only be issued to finance long-term capital projects, that debt will not be issued to fund current expenditures, and that debt will not be issued with a maturity longer than the estimated life of the project.

Budgetary Procedures . . . It is the City's policy that a multi-year financial forecast shall be prepared annually, to be issued as a planning tool in developing the following year's operating budget. The budget is developed by the City staff and presented to the City Council for consideration.

INVESTMENTS

The City invests its investable funds in investments authorized by State 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 State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certificates of deposit and share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended (the "PFIA")) (i) that are issued by an institution that has its main office or a branch office in the State of 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) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that has a stated maturity of 270 days or less and is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds regulated by the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share, (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent, and (13) guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States of America or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph. The City may invest in all of the investments authorized by the Act, as the Act may be amended from time to time, and to the extent the provisions of the Act, as amended, are in complete accord with the written investment policies of the City.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA 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.

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

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

TABLE 10 - CURRENT INVESTMENTS

As of December 31, 2014 the following percentages of the City's investable funds were invested in the following categories of investments.

Type of Investments	Book Value Amount	Percent
Federal Agency Coupon Securities	$ 282,913,934	64.87%
Federal Agency Discount	36,620,523	8.40%
Municipal Bonds	3,419,891	0.78%
Certificates of Deposit	28,208,452	6.47%
Investment Pool	84,930,230	19.48%
	$ 436,093,030	100.00%

SELECTED PROVISIONS OF THE ORDINANCE

The following are selected provisions of the Ordinance. These excerpts should be qualified by reference to the exact terms of the Ordinance. Unless otherwise indicated, any references to sections listed below are to sections contained in the Ordinance and section headings contained in the following excerpts are to sections contained in the Ordinance.

SECTION 10. Definitions. For all purposes of this Ordinance and in particular for clarity with respect to the issuance of the Bonds and the pledge and appropriation of revenues therefor, the following definitions are provided:

(a) The term "Additional Bonds" shall mean the additional parity revenue obligations authorized to be issued in accordance with the terms and conditions prescribed in Section 21 hereof.

(b) The term "Annual Debt Service Requirements" shall mean, for any Fiscal Year, the principal of and interest on all Bonds Similarly Secured coming due at Maturity or Stated Maturity (or that could come due on demand of the owner thereof other than by acceleration or other demand conditioned upon default by the City on such Debt, or be payable in respect of any required purchase of such Debt by the City) in such Fiscal Year, and, for such purposes, any one or more of the following rules shall apply at the election of the City:

(1) Committed Take Out. If the City has entered into a Credit Agreement constituting a binding commitment within normal commercial practice to discharge any of its Funded Debt at its Stated Maturity (or, if due on demand, at any date on which demand may be made) or to purchase any of its Funded Debt at any date on which such Debt is subject to required purchase, all under arrangements whereby the City's obligation to repay the amounts advanced for such discharge or purchase constitutes Funded Debt, then the portion of the Funded Debt committed to be discharged or purchased shall be excluded from such calculation and the principal of and interest on the Funded Debt incurred for such discharging or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Stated Maturity or purchase date of the Funded Debt to be discharged or purchased, shall be added;

(2) Balloon Debt. If the principal (including the accretion of interest resulting from original issue discount or compounding of interest) of any series or issue of Funded Debt due (or payable in respect of any required purchase of such Funded Debt by the City) in any Fiscal Year either is equal to at least 25% of the total principal (including the

accretion of interest resulting from original issue discount or compounding of interest) of such Funded Debt or exceeds by more than 50% the greatest amount of principal of such series or issue of Funded Debt due in any preceding or succeeding Fiscal Year (such principal due in such Fiscal Year for such series or issue of Funded Debt being referred to herein as "Balloon Debt"), the amount of principal of such Balloon Debt taken into account during any Fiscal Year shall be equal to the debt service calculated using the original principal amount of such Balloon Debt amortized over the Term of Issue on a level debt service basis at an assumed interest rate equal to the rate borne by such Balloon Debt on the date of calculation;

(3) Consent Sinking Fund. In the case of Balloon Debt (as defined in clause (2) above), if the City Manager or the Director of Financial Services or a designee of either shall deliver to the City a certificate providing for the retirement of (and the instrument creating such Balloon Debt shall permit the retirement of), or for the accumulation of a sinking fund for (and the instrument creating such Balloon Debt shall permit the accumulation of a sinking fund for), such Balloon Debt according to a fixed schedule stated in such certificate ending on or before the Fiscal Year in which such principal (and premium, if any) is due, then the principal of (and, in the case of retirement, or to the extent provided for by the sinking fund accumulation, the premium, if any, and interest and other debt service charges on) such Balloon Debt shall be computed as if the same were due in accordance with such schedule, provided that this clause (3) shall apply only to Balloon Debt for which the installments previously scheduled have been paid or deposited to the sinking fund established with respect to such Debt on or before the times required by such schedule; and provided further that this clause (3) shall not apply where the City has elected to apply the rule set forth in clause (2) above;

(4) Prepaid Debt. Principal of and interest on Bonds Similarly Secured, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal or interest are payable from funds on deposit or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust) with a financial institution acting as fiduciary with respect to the payment of such Debt;

(5) Variable Rate.

(i) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the average for the then immediately preceding five (5) years of the SIFMA Index, plus twenty (20) basis points; provided, however, that (i) if, after the issuance of the Variable Rate Obligations then proposed to be issued, more than 20% of the aggregate of the Bonds Similarly Secured Outstanding will bear interest at a variable rate and (ii) any Bond Similarly Secured is then insured by a Bond Insurer, the rate of interest on Variable Rate Obligations then proposed to be issued shall be deemed to be the greater of (x) the most recently announced thirty (30) year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in the City of New York, New York or (y) 1.25 times the average variable rate borne by any Variable Rate Obligations then Outstanding during the then immediately preceding twelve-month period, and

(ii) Except as hereinafter provided in this subparagraph, the rate of interest on Variable Rate Obligations outstanding at the time of such calculation shall be deemed to be the lesser of (i) the then current per annum rate of interest borne by such Variable Rate Obligations or (ii) the average per annum rate of interest borne by such Variable Rate Obligations during the then immediately preceding twelve-month period; provided, however, that for any period during which (a) more than 20% of the aggregate of the Bonds Similarly Secured then Outstanding bear interest at a variable rate and (b) any Bond Similarly Secured is then insured by a Bond Insurer, the rate of interest on such Variable Rate Obligations shall be the greater of (x) the most recently announced 30-year Revenue Bond Index published by The Bond Buyer, a financial journal published, as of the date the Ordinance was adopted, in the City of New York, New York, (y) the rate of interest then in effect with respect to such Variable Rate Obligations in accordance with their terms, or (z) 1.25 times the average variable rate borne by such Variable Rate Obligations during the then immediately preceding twelve-month period;

(6) Guarantee. In the case of any guarantee, as described in clause (2) of the definition of Debt, no obligation will be counted if the City does not anticipate in its annual budget that it will make any payments on the guarantee. If however, the City is making payments on a guarantee or anticipates doing so in its annual budget, such obligation shall be treated as Parity Bonds and calculations of annual debt service requirements with respect to such guarantee shall be made assuming that the City will make all additional payments due under the guaranteed obligation. If the entity whose obligation is guaranteed cures all defaults and the City no longer anticipates making payments under the guarantee, the guaranteed obligations shall not be included in the calculation of Annual Debt Service Requirements;

(7) Commercial Paper. With respect to any Bonds Similarly Secured issued in the form of commercial paper with maturities not exceeding 270 days, the interest on such Bonds Similarly Secured shall be calculated in the manner provided in clause (5) of this definition and the maturity schedule shall be calculated in the manner provided in clause (2) of this definition; and

(8) Credit Agreement Payments. If the City has entered into a Credit Agreement in connection with an issue of Debt, payments due under the Credit Agreement (other than payments made by the City in connection with the termination or unwinding of a Credit Agreement), from either the City or the Credit Provider, shall be included in such calculation except to the extent that the payments are already taken into account under (1) through (7) above and any payments otherwise included above under (1) through (7) which are to be replaced by payments under a Credit Agreement, from either the City or the Credit Provider, shall be excluded from such calculation.

(c) The term "Bonds" shall mean the "City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015," dated February 1, 2015, authorized by this Ordinance.

(d) The term "Bonds Similarly Secured" shall mean, collectively, the Bonds the City of Garland, Texas Electric Utility System Revenue Refunding Bonds, New Series 2014, dated as of June 1, 2014 and any Additional Bonds.

(e) The term "City" shall mean the City of Garland, Texas.

(f) The term "Consultant" shall mean an independent firm, person or corporation recognized as having expertise and with a favorable reputation for special skill and knowledge in the operations and financing of municipal electric light and power facilities and systems similar in size to the System.

(g) The term "Credit Agreement" shall mean, collectively, a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase Bonds Similarly Secured, purchase or sale agreements, interest rate swap agreements, currency exchange agreements, interest rate floor or cap agreements, or commitments or other contracts or agreements authorized, recognized and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of Bonds Similarly Secured and on a parity therewith.

(h) The term "Credit Facility" shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a Rating Agency having an outstanding rating on Bonds Similarly Secured would rate the Bonds Similarly Secured fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a Rating Agency having an outstanding rating on the Bonds Similarly Secured would rate the Bonds Similarly Secured in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the Bonds Similarly Secured and the interest thereon; and, in any case, no lower than the rating assigned by a Rating Agency to the Bonds Similarly Secured.

(i) The term "Credit Provider" shall mean any bank, financial institution, insurance company, surety bond provider, or other entity which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement.

(j) The term "Debt" shall mean, with respect to the System, all:

(1) indebtedness incurred or assumed by the City for borrowed money (including indebtedness arising under Credit Agreements) and all other financing obligations of the City that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(2) all other indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations that is guaranteed, directly or indirectly, in any manner by the City, or that is in effect guaranteed, directly or indirectly, by the City through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(3) all indebtedness secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the City whether or not the City has assumed or become liable for the payment thereof.

For the purpose of determining the "Debt" of the City, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles applied on a basis consistent with the financial statements prepared by or for the benefit of the City in prior Fiscal Years.

(k) The term "Fiscal Year" shall mean the 12 month period ending September 30th of each year; provided, however, the City may change the Fiscal Year to another period of not less than 12 calendar months, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

(l) The term "Gross Revenues" shall mean those revenues, income, and receipts derived or received by the City from the operation and ownership of the System, including interest income and earnings from the investment or deposit of money in any Fund created by the Ordinance or another ordinance or authorizing document associated with the Bonds or Additional Bonds or maintained by the City in connection with the System, and money transferred to the System Fund, other than those amounts subject to the payment of the United States of America as rebate pursuant to section 148 of the Code. The term "Gross Revenues", however, does not include refundable meter deposits, restricted gifts, grants in aid of construction or "transition charges" or similar charges imposed pursuant to the Texas Utilities Code, Subchapter G of Chapter 39, as amended, or similar law imposed for the payment of "transition bonds".

(m) The term "Government Obligations", as used herein, shall mean (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State of Texas.

(n) The term "Maturity" shall mean, when used with respect to any Debt, the date on which the principal of such Debt or any installment thereof becomes due and payable as therein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption, or otherwise.

(o) The term "Net Revenues" shall mean for any period of time the Gross Revenues of the System less the Operation and Maintenance Expenses incurred during such period.

(p) The term "Operation and Maintenance Expense" means the expenses of operation and maintenance of the System, including all salaries, labor material repairs, and extensions necessary to render efficient service, provided, however, that only such repairs and extensions, as in the judgment of the City, reasonably and fairly exercised by the passage of appropriate ordinances are necessary to render adequate service, or such as might be necessary to meet some physical accident or condition which would otherwise impair any Bonds Similarly Secured. Operation and Maintenance Expenses shall include the purchase of power. Depreciation shall not be considered as an expense of operation and maintenance.

(q) The term "Outstanding" when used in this Ordinance with respect to the Bonds means, as of the date of determination, all Bonds and Bonds Similarly Secured theretofore issued and delivered, except:

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

(2) those Bonds or Bonds Similarly Secured for which payment has been duly provided by the City in accordance with the provisions of Section 39 hereof by the irrevocable deposit with the Paying Agent/Registrar of money or Government Obligations, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds or Bonds Similarly Secured are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Bonds or Bonds Similarly Secured or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds or Bonds Similarly Secured that have been mutilated, destroyed, lost or stolen and for which replacement bonds have been registered and delivered in lieu thereof.

(r) The term "Owner," with respect to any Bond shall mean the person in whose name such Bond is registered on the register kept by the Paying Agent/Registrar.

(s) The term "Paying Agent/Registrar" shall mean the person or entity designated as such pursuant to Section 3 of this Ordinance.

(t) The term "Prior Lien Bonds" includes (i) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2005," dated March 15, 2005, (ii) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2006," dated March 15, 2006 (the 2016-2026 maturities to be refunded by the Bonds), (iii) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2007," dated March 15, 2007, (iv) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2008," dated June 15, 2008, (v) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2009," dated May 15, 2009, (vi) "City of Garland, Texas, Electric Utility System Revenue Bonds, Series 2011," dated June 15, 2011, (vii) "City of Garland, Texas Electric Utility System Revenue Refunding Bonds, Series 2011A," dated November 1, 2011 and (viii) "City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, Series 2013" dated May 1, 2013.

(u) The term "Stated Maturity" shall mean, when used with respect to any Debt or any installment of interest thereon, any date specified in the instrument evidencing or authorizing such Debt or such installment of interest as a fixed date on which the principal of such Debt or any installment thereof or the fixed date on which such installment of interest is due and payable.

(v) The term "System" shall mean the City's Electric Utility System, including all present and future extensions, additions, replacements and improvements thereto.

(w) The term "Term of Issue" shall mean, with respect to any Balloon Debt, a period of time equal to the greater of (i) the period of time commencing on the date of issuance of such Balloon Debt and ending on the final maturity date of such Balloon Debt or (ii) thirty (30) years.

(x) The term "Variable Rate Obligations" shall mean Bonds Similarly Secured that bear interest at a rate per annum which is subject to adjustment so that the actual rate of interest is not ascertainable at the time such Bonds Similarly Secured are issued; provided, however, that upon the conversion of the rate of interest on a Variable Rate Obligation to a fixed rate of interest (whether or not the interest rate thereon is subject to conversion back to a variable rate of interest), such Bond Similarly Secured shall not be treated as a "Variable Rate Obligation" for so long as such Bond Similarly Secured bears interest at a fixed rate.

The City reserves the right to establish accounts within the Bond Fund for the payment of obligations, including specifically obligations incurred under a Credit Agreement or a Variable Rate Obligation; that is declared to be a Bond Similarly Secured in the ordinance authorizing the execution of such Credit Agreement or such Variable Rate Obligation.

SECTION 11. Pledge of Revenues. The City hereby covenants and agrees that, subject only to the prior lien on and pledge of the Net Revenues of the System to the payment and security of the Prior Lien Bonds (including the establishment and maintenance of the special funds created for the payment and security thereof) under the terms and conditions of the ordinances and proceedings pertaining to their authorization, the Net Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Outstanding Bonds Similarly Secured, are hereby irrevocably pledged to the payment and security of the Outstanding Bonds Similarly Secured, including the maintenance of the special funds herein created in connection with the issuance of the Bonds, all as hereinafter provided, and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System and be valid and binding without any filing or recording except for the filing of this Ordinance in the records of the City.

Texas Government Code, Chapter 1208, as amended, applies to the issuance of the Bonds and the pledge of the revenues granted by the City under this Section of this Ordinance, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds are Outstanding and unpaid such that the pledge of the revenues granted by the City under this Section of this Ordinance is to be subject to the filing requirements of Texas Business and Commerce Code, Chapter 9, as amended, then in order to preserve to the Holders of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Texas Business and Commerce Code, Chapter 9, as amended, and enable a filing to perfect the security interest in said pledge to occur.

SECTION 12. Rates and Charges. The City hereby covenants and agrees with the Holders of the Bonds that rates and charges for electric utility services afforded by the System will be established and maintained to provide Gross Revenues, including the money transferred to the System Fund for the sole purpose of compliance with this Section 12, sufficient at all times to:

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

(b) Maintain the Bond Fund;

(c) Maintain the Reserve Fund at the Required Reserve Amount; and

(d) Pay all other outstanding indebtedness against said System as and when the same becomes due.

SECTION 13. Fund Designations. The City hereby covenants and agrees that all revenues derived from the operation of the System shall be kept separate and apart from all other funds of the City, and the following Funds or Accounts shall be created and established in connection with the issuance of the Bonds (to the extent such funds are required to be established and to the extent such funds have not previously been created and established) and shall continue to be kept and maintained during the period of time any Bonds Similarly Secured are Outstanding, to wit:

(a) City of Garland, Texas Electric Utility System Fund, hereinafter called the "System Fund," which Fund is kept and maintained at a depository bank of the City.

(b) City of Garland, Texas New Series Electric Utility System Interest and Sinking Fund, hereinafter called the "Bond Fund," which Bond Fund is hereby declared to be the combined interest and sinking fund created for the payment of principal of and interest on any Outstanding Bonds Similarly Secured, and the same shall continue to be a single fund for the payment of principal of and interest on such Outstanding Bonds Similarly Secured. The Bond Fund shall be kept and maintained at a City depository, as custodian of the pledged revenues, and moneys deposited therein shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds Similarly Secured when and as the same become due and payable.

(c) City of Garland, Texas New Series Electric Utility System Revenue Reserve Fund, hereinafter called the "Reserve Fund," which Reserve Fund, if required to be established and maintained as set forth herein or as set forth in an ordinance of the City relating to the issuance of Additional Bonds, shall be kept and maintained at a City depository, and moneys or instruments or any combination of both deposited in the Reserve Fund shall be used to pay principal of and interest on any Outstanding Bonds Similarly Secured falling due at any time when there is insufficient money available in the Bond Fund for such purpose.

It is specifically provided, however, that the City may change the custodian of the Bond Fund and the Reserve Fund without impairing the obligation of contract with the Holders of the Bonds, if the new custodian for such Fund or Funds is a financial institution with trust powers. In no event shall a change of the custodian of either of the Bond Fund or the Reserve Fund be considered as a change in the purpose for which such Funds were created and established as provided in this Ordinance, and the City covenants that it will cause such Funds to be timely utilized for the respective purposes for which they were created.

The City reserves the right to establish and maintain additional funds and accounts in connection with payment or support of the Outstanding Bonds Similarly Secured and the money on deposit in any such fund or account on the last day of the Fiscal Year may be used for any lawful purpose related to the Outstanding Bonds Similarly Secured and any proposed obligations which would be Bonds Similarly Secured when issued, including being applied to any Net Revenue calculations associated with Additional Bonds.

SECTION 14. System Fund. The City hereby covenants and agrees that all revenues and income of every nature derived and to be derived from the operation of the System shall be deposited from day to day as collected into the System Fund, and the reasonable and proper maintenance and operation expenses of the System shall be paid therefrom. All moneys deposited therein which are not required for the payment of maintenance and operating expenses of the System shall be appropriated and used, in the order of priority prescribed, for the purposes specified in the ordinances authorizing the issuance of any Outstanding Prior Lien Bonds, any Outstanding Bonds Similarly Secured and any outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System subordinate to the lien on and pledge of the Net Revenues to any Outstanding Bonds Similarly Secured.

SECTION 15. Bond Fund. The following provisions shall govern the maintenance and use of the Bond Fund: the City covenants that from the funds in the System Fund, after paying or making provision for the payment of the necessary and reasonable expenses of operation and maintenance of the System, the City shall pay into the Bond Fund during each year in which any of the Bonds Similarly Secured are Outstanding, an amount equal to one hundred percent (100%) of the amount required to meet the principal and interest payments falling due on or before the next maturity date of the Outstanding Bonds Similarly Secured. An amount of moneys in the Bond Fund sufficient to pay principal and interest next coming due shall be transferred to the Paying Agent/Registrar on or before the principal or interest payment date.

SECTION 16. Reserve Fund. (a) Establishment. A Reserve Fund shall not be required to be established or maintained by the City for the payment of the Bonds or any other Bonds Similarly Secured so long as the Net Revenues of the System for a Fiscal Year equal or exceed one hundred fifty per cent (150%) of the annual debt service requirements of Bonds Similarly Secured due and payable in such Fiscal Year. If for any Fiscal Year such Net Revenues do not exceed 150% of the annual debt service requirements of the Bonds Similarly Secured, the City shall be obligated to establish and maintain on the books of the City a separate fund or account designated as the Reserve Fund. Upon being established and except as provided in below, the amount on deposit to the credit of the Reserve Fund shall be maintained for the benefit of the owners of the Bonds Similarly Secured. The amounts deposited to the credit of the Reserve Fund shall be in a special fund maintained at a depository of the City. Monies or investments held in the Reserve Fund shall be used for the purpose of retiring the last of the Bonds Similarly Secured as they become due or paying principal of and interest on the Bonds Similarly Secured when and to the extent the amounts in the Bond Fund are insufficient for such purpose.

When a Reserve Fund is required to be established as noted above and while the same is required to be maintained, the Required Reserve Amount to be accumulated and maintained in such Fund shall be determined and re-determined as follows:

(1) ten per cent (10%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 150% of the annual debt service requirement for such Fiscal Year;

(2) twenty per cent (20%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 140% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 130% of the annual debt service requirement for such Fiscal Year;

(3) thirty per cent (30%) of the average annual debt service requirement for all Bonds Similarly Secured then Outstanding if the Net Revenues for the previous Fiscal Year were less than 130% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 120% of the annual debt service requirement for such Fiscal Year;

(4) forty per cent (40%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 120% of the annual debt service requirement for such Fiscal Year, but greater than or equal to 110% of the annual debt service requirement for such Fiscal Year; and

(5) fifty per cent (50%) of the average annual debt service requirement for all Bonds Similarly Secured if the Net Revenues for the previous Fiscal Year were less than 110% of the annual debt service requirement for such Fiscal Year.

The City shall review the amount, if any, on deposit in the Reserve Fund within thirty (30) days of the receipt of the audited financial statements applicable to the System for the preceding Fiscal Year to determine compliance with the provisions of subparagraph (i), (ii), (iii), (iv) and (v) of subsection (a) of this Section 16. If at any time the City is required to fund the Required Reserve Amount, or to increase the Required Reserve Amount, the Required Reserve Amount or increase in the Required Reserve Amount, as applicable, shall be funded as provided in subsection (b) of this Section 16 in not more than sixty (60) substantially equal consecutive monthly deposits commencing not later than the month following the receipt of audited financial statements for the System for the preceding Fiscal Year.

(b) Funding. The Required Reserve Amount shall be established and maintained with Net Revenues of the System, transfer(s) of funds from refunded obligations, proceeds of sale of Bonds Similarly Secured, or by depositing to the credit of the Reserve Fund, to the extent permitted by law, one or more surety bonds or insurance policies issued by a company or institution which at the time of such deposit has a rating in one of the two highest rating categories by two nationally recognized rating agencies or services, or any combination thereof. The City hereby covenants and agrees to accumulate in the Reserve Fund the Required Reserve Amount either by depositing, from Net Revenues, in not more than sixty (60) substantially equal monthly payments, which initial fractional payment thereof shall be made on or before the fifteenth (15th) day of the month next following the determination that additional amounts need to be accumulated in the Reserve Fund to satisfy the Required Reserve Amount or by funding the Reserve Fund in the Required Reserve Amount from funds received from the transfer of funds from refunded obligations, from proceeds of sale of Bonds Similarly Secured, or by depositing one or more surety bonds or insurance policies issued by a company or companies meeting the aforesaid criteria, or any combination of the foregoing.

Concurrently with the delivery of a series of Additional Bonds, the appropriate City officials shall determine the Required Reserve Amount as well as the amount then held in the Reserve Fund, and the amount of such difference shall be deposited in the said Reserve Fund (i) by depositing to the credit of the Reserve Fund (concurrently with the delivery of the then proposed Additional Bonds) cash or an additional surety bond or insurance policy or revised surety bond or revised insurance policy with coverage in an amount sufficient to provide for the new Required Reserve to be fully or partially funded, or (ii) at the option of the City, in not more than sixty (60) substantially equal consecutive monthly payments, cash, the initial payment to be made on or before the fifteenth (15th) day of the month next following the month in which such Additional Bonds are delivered (or 1/60th of the balance of the additional amount not deposited immediately in cash or provided by a surety bond or insurance policy).

When and so long as the cash and investments in the Reserve Fund and/or coverage afforded by a surety bond or insurance policy held for the account of the Reserve Fund total not less than the Required Reserve Amount, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve Amount (or so much thereof as shall then be required to be contained therein if Additional Bonds have been issued and the City has elected to accumulate all or a portion of the Required Reserve Amount with Net Revenues), the City covenants and agrees to cause monthly deposits to be made to the Reserve Fund on or before the fifteenth (15th) day of each month (beginning the month next following the month the deficiency in the Required Reserve Amount occurred by reason of a draw on the Reserve Fund or as a result of a reduction in the market value of investments held for the account of the Reserve Fund) from Net Revenues of the System in an amount equal to either (i) one-sixtieth (1/60th) of the Required Reserve Amount until the total Required Reserve Amount then required to be maintained in said Fund has been fully restored or (ii) the amounts to pay principal of and interest on Bonds Similarly Secured held by an insurer, or evidenced by an instrument of assignment entitling an insurer to payment of principal of and interest on Bonds Similarly Secured, as a result of payments or draws made on a surety bond or insurance policy held for the account of the Reserve Fund, and such payments will result in (x) the principal of and/or interest on such Bonds Similarly Secured to be paid and (y) the restoration and replenishment of the surety bond or insurance policy coverage representing all or a portion of the Required Reserve Amount.

During such time as the Reserve Fund contains the total Required Reserve Amount, the City may, at its option, withdraw all surplus in the Reserve Fund over the Required Reserve Amount and deposit such surplus in the System Fund. Any such amount to be withdrawn that is allocated to proceeds of Bonds Similarly Secured shall be deposited to the Bond Fund or otherwise used for only such purposes as other bond proceeds may be used.

If the Reserve Fund is required to be established as provided in (a) above, and for two consecutive Fiscal Years, the Net Revenues of the System for a Fiscal Year equal or exceed one hundred fifty per cent (150%) of the annual debt service requirements of Bonds Similarly Secured due and payable in such Fiscal Year, then the Reserve Fund does not need to be maintained and the amounts in the Reserve Fund may be deposited to the Bond Fund or otherwise used for only such purposes as other bond proceeds may be used.

SECTION 17. Deficiencies in Funds. If in any month the City shall, for any reason, fail to pay into the Bond Fund or Reserve Fund the full amounts above stipulated, amounts equivalent to such deficiencies shall be set apart and paid into said Funds from the first available and unallocated Net Revenues of the System for the following month or months, and such payments shall be in addition to the amounts otherwise required to be paid into said Funds during such month or months.

SECTION 18. Excess Revenues. Any Net Revenues in excess of those required to establish and maintain the special Funds as herein required may be used for any other lawful purpose.

SECTION 19. Security of Funds. All moneys deposited in the Funds referred to in this Ordinance shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds, and shall be used only for the purposes permitted by this Ordinance and the ordinances authorizing the issuance of other Bonds Similarly Secured.

SECTION 20. No Additional Obligations to be Issued on a Parity with the Prior Lien Bonds - Obligations of Inferior Lien and Pledge. The City will not hereafter issue any additional obligations with a lien on and pledge of the Net Revenues on a parity with the lien on and pledge of the Net Revenues associated with the Prior Lien Bonds or create or issue evidences of indebtedness for any purpose possessing a lien on the Net Revenues of the System superior to that to be possessed by the Bonds Similarly Secured. The City, however, retains the right to create and issue evidences of indebtedness whose lien on and pledge of the Net Revenues of the System shall be subordinate to that possessed by the Bonds Similarly Secured.

SECTION 21. Issuance of Additional Bonds. In addition to the right to issue obligations of inferior lien as authorized by the laws of the State of Texas, the City hereby reserves the right to issue additional parity obligations. The Additional Bonds, when issued, shall be payable from and secured by a lien on and pledge of the Net Revenues of the System in the same manner and to the same extent as the Outstanding Bonds Similarly Secured, and the Outstanding Bonds Similarly Secured and any Additional Bonds shall in all respects be of equal dignity. The Additional Bonds may be issued in one or more installments, provided, however, that none shall be issued unless and until the following conditions have been met:

(a) A certificate is executed by the Mayor and Director of Financial Services (or other officer of the City having primary responsibility for the financial affairs of the City) to the effect that no default exists in connection with any of the covenants or requirements of the ordinances authorizing the issuance of all then Outstanding Bonds Similarly Secured;

(b) A certificate is executed by the Mayor and Director of Financial Services (or other officer of the City having primary responsibility for the financial affairs of the City) to the effect that the Bond Fund and the Reserve Fund each contains the amount then required to be on deposit therein;

(c) A certificate is executed by a certified public accountant to the effect that, in his or her opinion, the Net Revenues of the System either for the last complete Fiscal Year of the City, or for any 12 consecutive calendar month period ending not more than 90 days prior to the passage of the ordinance authorizing the issuance of such Additional Bonds were at least 1.25 times the average annual principal and interest requirements for the calculation period of all then Outstanding Prior Lien Bonds and Outstanding Bonds Similarly Secured and for the installment or series of Additional Bonds then proposed to be issued and 1.00 times the maximum annual principal and interest requirements for all their Outstanding Prior Lien Bonds and Outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. However, (i) should the certificate of the accountant certify that the Net Revenues of the System for the period covered thereby were less than required above, and (ii) a change in the rates and charges for electric utility services afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and (iii) a Consultant having a favorable reputation with respect to such matters will certify that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Revenues of the System covered by the accountant's certificate would have been, in his or her opinion, equal to at least 1.25 times the average annual and 1.00 times the maximum annual principal and interest requirements (calculated on a Fiscal Year basis) of the Prior Lien Bonds and Bonds Similarly Secured after giving effect to the issuance of the proposed Additional Bonds, then, in such event, the coverage specified in the first sentence of this subparagraph (c) shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by a Consultant's certificate to the above effect. The term Net Revenues, as used in this subparagraph (c), shall mean the Net Revenues of the System, but excluding and not deducting any charges or disbursements which under standard accounting practice should be charged to capital expenditures;

(d) The Additional Bonds are scheduled to mature on March 1 or September 1, or both, and the interest thereon is scheduled to be paid on March 1 and September 1, provided, however, if the City issues Variable Rate Obligations, such Variable Rate Obligations may mature and pay interest on such date or dates provided in the ordinance authorizing the issuance of such Variable Rate Obligations; and

(e) The ordinance authorizing the issuance of such Additional Bonds provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased by an additional amount not less than the applicable percentage of the average annual debt service requirements for the Bonds Similarly Secured, taking into account the proposed Additional Bonds and that such additional amount shall (i) be so accumulated within sixty (60) months from the date of the Additional Bonds by the deposit in the Reserve Fund of the necessary sums in substantially equal consecutive monthly installments; or (ii) be deposited therein transfers of lawfully available funds, proceeds of sale of Bonds Similarly Secured or depositing to the credit of the Reserve Fund one or more surety bonds or insurance policies as provided in this Ordinance; provided, however, that the aggregate amount to be accumulated in the Reserve Fund shall never be required to exceed the applicable percentage of the average annual debt service requirements for all Bonds Similarly Secured taking into account the series of Additional Bonds then proposed to be issued; and

(f) All calculations of maximum and average annual debt service requirements made pursuant to this Section shall be made based upon the actual rate of interest to be borne by the Additional Bonds then proposed to be issued.

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

SECTION 22. Maintenance and Operation - Insurance. The City covenants and agrees that the System shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds are Outstanding, the City agrees to maintain insurance on the System of a kind, including self-insurance by the City, and in an amount not less than, customarily carried by municipal corporations in the State of Texas engaged in a similar type of business. Nothing in this Ordinance shall be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

SECTION 23. Records - Accounts - Accounting Reports.

(a) The City hereby covenants and agrees that so long as any of the Bonds remain Outstanding, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System separate and apart from all other records and accounts of the City in accordance with accepted accounting principles prescribed for municipal corporations. The Owner of any Bond or any duly authorized agent or agents of such Owner shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that as soon as possible following the close of each Fiscal Year it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants or licensed public accountants.

(b) Expenses incurred in making the audits above referred to are to be regarded as maintenance and operating expenses of the System and paid as such. Copies of the aforesaid annual audit shall be immediately furnished to the Executive Director of the Municipal Advisory Council of Texas at his or her office in Austin, Texas, and, upon written request to the Purchasers and any subsequent Owners of the Bonds.

SECTION 24. Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Bond Fund and Reserve Fund as required by this Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Holder or Holders of any Bond shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the governing body of the City and other officers of the City to observe and perform any covenant, condition or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specification of such remedies shall not be deemed to be exclusive. Notwithstanding anything in this Ordinance to the contrary, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under this Ordinance.

SECTION 25. Special Covenants. The City hereby further covenants as follows:

(a) That it has the lawful power to pledge the revenues supporting this issue of Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, including said power existing under Texas Government Code, Chapter 1502, as amended, that the Bonds when issued, shall be ratably secured under said pledge of income in such manner that one Bond Similarly Secured shall have no preference over any other Bond Similarly Secured.

(b) That, other than for the payment of the Prior Lien Bonds, and the Bonds similarly secured the Net Revenues of the System have not in any manner been pledged to the payment of any debt or obligation of the City or of the System that is on a parity with the pledge of the Net Revenues to Bonds Similarly Secured.

(c) That, as long as any of the Prior Lien Bonds, the Bonds Similarly Secured or any interest thereon remain Outstanding, the City will not sell or encumber the System or any substantial part thereof; provided that this shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System; also, with the exception of the Additional Bonds expressly permitted by this Ordinance to be issued, it will not encumber the Net Revenues thereof unless such encumbrance is made subordinate to the lien on and pledge of said Net Revenues to any Prior Lien Bonds or Bonds Similarly Secured.

(d) That no free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

To the extent that it legally may, the City further covenants and agrees that, so long as any of the Bonds Similarly Secured, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing electric utility system other than that owned by the City.

SECTION 26. Bonds are Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the System, and the Holders thereof shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 27. Bonds are Negotiable Instruments. That each of the Bonds shall be deemed and construed to be a "security," and as such a negotiable instrument, within the meaning of Texas Business and Commerce Code, Chapter 8, as amended.

SECTION 28. Investments. Moneys in the Bond Fund and the Reserve Fund may at the option of the City be invested or reinvested from time to time in direct obligations of the United States of America, or other obligations permitted by the Texas Public Funds Investment Act, as amended.

SECTION 29. Payment of Bond. While any of the Bonds are Outstanding, the Mayor, the Director of Financial Services and the City Secretary, individually or jointly, are hereby authorized to transfer or cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds as the same accrue or mature or come due; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds on or before the date of payment for the Bonds.

SECTION 30. Registered Owners, Notices, Waiver. The City, the Paying Agent/Registrar and any agent of either of them may treat the person in whose name any Bond is registered as the Holder of such Bond for the purpose of receiving payment of the principal of and interest on such Bond and for all other purposes whatsoever, and to the extent permitted by law, neither the City, the Paying Agent/Registrar, nor any agent of either of them shall be affected by notice to the contrary.

Wherever this Ordinance provides for notice to the Holder of a Bond of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first class postage prepaid, to the address of such Holder as it appears in the register kept by the Paying Agent/Registrar at the close of business on the business day next preceding the mailing of such notice.

In any case in which notice to the Holders of the Bonds is given by mail, neither the failure to mail such notice to any Holder of a Bond, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Bonds. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by any Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of the Bond shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

TAX MATTERS

TAX EXEMPTION…The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinion, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS…The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified 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. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 10 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in or after 2015.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). If not provided as part of the updated financial information and operating data, the City shall file audited financial statements of the City within twelve months of the end of each fiscal year ending in and after 2015. If the audit of such financial statements is not complete within twelve months after any such fiscal year end, the City shall file unaudited financial statements within such twelve month period, and audited financial statements for the applicable fiscal year when and if the audit report on such financial statements becomes available. Any financial statements so provided shall be prepared in accordance with the accounting principles described in Appendix B hereto, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS…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 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 orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

AVAILABILITY OF INFORMATION. . . In connection with its continuing disclosure agreement entered into with respect to the Bonds, the City will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB 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 the registered and beneficial owners 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 Initial Purchaser 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 registered and beneficial owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an Initial Purchaser from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the continuing disclosure 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. . . In connection with the City's outstanding general obligation, water and sewer system and electric system debt issuances, the City has entered into undertakings to provide certain updated financial information and operating data within six months of the end of the City's fiscal year along with notices of specified material events at required times. In addition, the City has agreed to provide audited financial statements within six months of the end of the fiscal year if the audited financial statements are available by such time. If audited financial statements are not available by the required time, the City has agreed to provide unaudited financial statements or unaudited financial information, depending on the specific undertaking, within six months of the end of the fiscal year, and audited financial statements when and if such audited financial statements become available.

The City filed certain updated quantitative financial and operating data in the form of certain tables identified for each of the respective debt issuances within six months after the end of each fiscal year (March 31). The respective tables included certain unaudited financial statements and financial information, but such tables were not complete unaudited financial statements. The audited financial statements for the fiscal year ended September 30, 2013 were filed within six months of the end of the fiscal year on March 31, 2014. The City filed audited financial statements of the City for the fiscal years ended September 30, 2012, September 30, 2011, September 30, 2010 and September 30, 2009, respectively, on May 1, 2013, April 17, 2012, August 2, 2011 and October 7, 2010, respectively.

The ratings on municipal bond insurers have been downgraded with frequency at various times in recent years. Information about the downgrades of municipal bond insurers has been publicly reported. During the previous five years, the City has filed notices of downgrades of municipal bond insurers that insured the City's outstanding obligations, but no assurances can be made that all the filings have been made or made in a timely manner.

OTHER INFORMATION

RATINGS

The Bonds have been rated "A+", with a stable outlook, by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AA-", with a stable outlook, by Fitch Ratings ("Fitch"). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION

There are currently no lawsuits, claims or other legal matters which would, in the opinion of the City Attorney and City Staff, have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act Chapter 1201 of the Texas Government Code, as amended provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8 of the Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, or for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in obligations such as the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, as amended, requires that the Bonds by assigned a rating of not less than "A" or its equivalent as to investment quality by a nationally recognized rating agency, this requirement does not apply, however, to the purchase of obligations such as the Bonds for interest and sinking funds of such entities. See "OTHER INFORMATION – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, 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.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS

The City will furnish to the Initial Purchasers a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of subcaptions "Book-Entry-Only System" and "Registered Owners' Remedies"), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (exclusive of the subcaption "Compliance with Prior Undertakings"), "SELECTED PROVISIONS OF THE ORDINANCE" and the subcaptions Legal Opinions" (except for the last sentence of the first paragraph thereof) "Registration and Qualification of Bonds for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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.

INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of Morgan Stanley & Co., LLC (the "Initial Purchaser of the Bonds") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of 110.941268% of par. The Initial Purchaser of the Bonds can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser of the Bonds. The City has no control over the price at which the Bonds are subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser of the Bonds.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

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.

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Certification of the Official Statement

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

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

/s/ Douglas Athas
Mayor
City of Garland, Texas

ATTEST:

/s/ Eloyce René Dowl
City Secretary
City of Garland, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Electric Utility System Revenue Bonds, Series 2006			
Original Dated Date	Original Maturity Date	Interest Rates	Amount
3/15/2006	3/1/2016	5.000%	$ 1,190,000
	3/1/2017	5.000%	1,255,000
	3/1/2018	5.000%	1,315,000
	3/1/2019	4.300%	1,380,000
	3/1/2020	5.000%	1,445,000
	3/1/2021	5.000%	1,520,000
	3/1/2022	5.000%	1,600,000
	3/1/2023	5.000%	1,680,000
	3/1/2024 (1)	4.500%	1,760,000
	3/1/2025 (1)	4.500%	1,840,000
	3/1/2026 (1)	4.500%	1,925,000
			$ 16,910,000

Bonds to be refunded on March 1, 2015 at price of par plus accrued interest.

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(1) 2026 Term Bond with mandatory redemptions in 2024, and 2025.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION AND SIZE

The City of Garland (the "City") is located in Dallas, Collin and Rockwall Counties approximately 14 miles northeast of downtown Dallas. The City encompasses approximately 57 square miles, of which approximately 90% of the developable area is fully developed. The City abuts Dallas and the suburban cities of Richardson and Mesquite on its western and southern boundaries, while on its northern, eastern and a portion of its southern boundaries, it abuts the cities of Rowlett, Sachse and Sunnyvale, as well as several miles of shoreline along Lake Ray Hubbard.

The City is well balanced between residential, commercial and industrial development. The population increased 122%, from 81,437 in 1970 to 180,650 according to the 1990 Census, making Garland the second largest City in Dallas County. The 2000 Census population of the City was 215,768. The 2014 estimated population of the City is 231,618.

Garland is served directly by two railroads, with reciprocal switching agreements with other railroads in the area, and is also served by a national bus line and has park-and-ride bus service to downtown Dallas via Dallas Area Rapid Transit. Commercial air service is afforded by the convenient location of the Dallas-Fort Worth International Airport, Dallas' Love Field and the Garland Heliplex which opened in November of 1989.

I.H. 635 is an eight-lane expressway that encircles the outer limits of Dallas, passing through the southwest section of Garland. The Garland section provides convenient automotive access to the Dallas metropolitan area and to major area traffic arteries.

INDUSTRY AND BUSINESS

The City has several conveniently located industrial districts which are served by all utilities and with rail and motor freight transportation facilities. The ten largest businesses in the City are:

Name of Firm	Type of Business	Approximate Number of Employees
Raytheon	Aerospace and defense	2,200
Wal-Mart Super Centers	Retail Distribution Center	1,250
Atlas Copco	Mining/Drilling equipment manufacturer	727
US Food Service	Food manufacturer	500
APEX Tool Group	Equipment and tool manufacturer	467
KARLEE	Sheet metal component manufacturer	451
Hatco (Resistol)	Apparel manufacturer	372
Home Depot	Retailer	339
Prestige Ford	Automotive retailer	310
Plastipak Packaging	Packaging manufacturer	269

EDUCATION

Most of the City, as well as Rowlett and Sachse, is served by the Garland Independent School District. Small portions of the City lie within the Dallas, Mesquite and Richardson school districts. Garland Independent School District presently has 65 schools with approximately 55,100 students.

Higher educational facilities in the area include Amberton University (formerly Abilene Christian University-Dallas in Garland), Collin County Community College, Eastfield College and Richland College, branches of the Dallas County Community College, Texas A&M Commerce, North Texas State University, Southern Methodist University, Texas Christian University, Texas Wesleyan College, Texas Woman's University, the University of Texas at Arlington, and the University of Texas at Dallas.

FINANCIAL INSTITUTIONS

Several national banks operate full service banking centers and provide branches within various retail stores and shops throughout the City. Numerous savings and loan associations and credit unions are also located in the City.

HOSPITALS

The Baylor Medical Center at Garland, the largest in the City, has 206 beds with 342 doctors on staff. The Leland Medical Hospital has 118 beds, with an Intensive Care Unit for 6. There are 264 doctors on the staff.

RECREATION FACILITIES

The Parks and Recreation Department operates 68 parks, with a total of approximately 2,698 acres. Facilities provided include ball fields, swimming pools, golf facilities, recreation buildings and a tennis center, as well as playgrounds and picnic areas. Lake Lavon, 18 miles northeast of the City, has excellent facilities for fishing, swimming, boating and picnicking. Lake Ray Hubbard, formed by Forney Dam on the East Fork of the Trinity River, provides additional swimming, boating and fishing facilities. A part of the shoreline lies within the City limits of the City, and offers areas for lakeside recreational and residential development.

CITY OF GARLAND MISCELLANEOUS STATISTICS

Fiscal Year Ended 9/30	Population (1)	Assessed Valuation	Gas Customers	Electric Customers (2)	Water Customers
2009	225,865	$ 11,146,040,266	43,041	83,686	67,154
2010	226,876	10,740,574,940	43,010	82,944	67,317
2011	226,915	10,428,493,870	43,036	81,885	67,512
2012	227,730	10,123,586,751	43,489	81,977	68,408
2013	231,618	10,117,079,195	43,967	82,588	69,913

(1) Reported by the Dallas Central Appraisal District on the City's annual State Property Tax Board Report.
(2) Includes both TXU Energy and the City's System.

EMPLOYMENT STATISTICS

	City of Garland (Average Annual)				
	2014 (1)	2013	2012	2011	2010
Civilian Labor Force	120,073	119,782	116,201	115,529	113,923
Total Employed	114,460	112,761	108,299	106,155	104,383
Total Unemployed	5,613	7,021	7,902	9,374	9,540
Unemployment Rate	4.7%	5.9%	6.8%	8.1%	8.4%

	Dallas County (Average Annual)				
	2014 (1)	2013	2012	2011	2010
Civilian Labor Force	1,230,116	1,216,359	1,184,434	1,176,200	1,161,562
Total Employed	1,169,615	1,144,563	1,099,277	1,077,721	1,059,734
Total Unemployed	60,501	71,796	85,157	98,479	101,828
Unemployment Rate	4.9%	5.9%	7.2%	8.4%	8.8%

Source: Texas Workforce Commission, Labor Market Information.
(1) Data as of November, 2014.

BUILDING PERMITS (FISCAL YEAR BASIS)

Year Ended	Single Family Residential		Multifamily Residential		Industrial and Commercial		Other		
9/30	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Grand Total
2008	205	$ 43,071,247	4	$ 24,915,377	49	$ 49,783,594	2,926	$ 58,521,878	$ 176,292,096
2009	168	35,990,069	1	1,620,000	24	6,907,837	2,739	38,599,174	83,117,080
2010	152	32,649,734	0	-	31	8,938,353	2,676	23,012,696	64,600,783
2011	141	29,792,325	1	10,138,561	23	9,515,211	1,935	35,651,045	85,097,142
2012	165	12,193,527	1	10,323,643	9	14,928,623	8,558	96,232,954	133,678,747
2013	207	44,470,197	1	19,918,534	63	34,163,289	2,331	61,382,085	159,934,105

Source: City of Garland Building Inspection Department.

APPENDIX B

CITY OF GARLAND, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2013

Financial Statements as of and for the year ended September 20, 2013.

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Deloitte.

Deloitte & Touche LLP

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USA

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Members of the City Council
City of Garland, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit and remaining fund information of the City of Garland, Texas (the "City"), as of and for the year ended September 30, 2013, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Garland Housing Finance Corporation ("GHFC"), the discretely presented component unit of the City of Garland as of and for the three month period ended December 31, 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the GHFC is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, 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 discretely presented component unit and remaining fund information of the City as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, and the Schedules of Funding Progress for the Texas Municipal Retirement System and for the Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining and individual fund financial statements and schedules listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City.

The accompanying combining and individual fund financial statements and schedules listed in the foregoing table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund financial statements and schedules listed in the foregoing table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and statistical section 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.

Deloitte & Touche LLP

March 24, 2014

GARLAND

TEXAS MADE HERE

As management of the City of Garland, we offer readers of the City of Garland's financial statements this narrative overview and analysis of the financial activities of the City of Garland for the fiscal year ended September 30, 2013. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets and deferred outflows of the City of Garland (City) exceeded its liabilities at the close of the fiscal year by $807,417,038. Ending net position for governmental activities amount to $136,938,557 and the ending net position for the business type activities amount to $670,478,481.
- Net position for the governmental activities decreased $5,312,324 and the net position for the business type activities increased $9,098,839 for a total increase in the City's net position of $3,786,515. Contributing factors related to the decrease in governmental activities and the increase in business type activities are discussed in the governmental activities and business type activities sections of this overview and analysis.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $74,019,448. Of the combined ending fund balances, $43,901,135 is restricted, $7,385,448 is committed, $4,480,000 is assigned, and $18,252,865 is unassigned.

Overview of the Financial Statements

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

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position 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 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, public safety, highways and streets, landfill, economic development, and culture and recreation. The business-type activities of the City include electric, water, sewer, golf, heliport, storm water, parks performance, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also legally separate non-profit corporations for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 24-25 of this report.

Fund financial statements

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

Governmental funds

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

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

The City maintains sixteen individual governmental funds. The General Fund, the Debt Service Fund, and the Capital Projects Fund, are considered to be major funds. Major funds are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. Data from the other thirteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided as required supplementary information for the General Fund to demonstrate compliance with this budget.

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

Proprietary funds

The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, golf, heliport, storm water management, parks performance, and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for group health, self-insurance, long-term disability insurance, fleet, vehicle replacement, information technology, facilities management, warehouse, and customer service operations. The internal service funds are allocated between the governmental and business-type activities based on the level of support each internal service provides to a governmental and business-type activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The electric, water, and sewer operations are considered to be major funds of the City. Conversely, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major enterprise funds and for the internal service funds is provided in the form of combining statements elsewhere in this report.

The proprietary fund financial statements can be found on pages 30-35 of this report.

Fiduciary funds

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

The basic fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-84 of this report.

Other information

Required supplementary information concerning the General Fund schedule of revenues, expenditures, and changes in fund balances – budget and actual for the year ended September, 30, 2013, and the City's progress in funding its obligation to provide Texas Municipal Retirement System pension benefits and Other Postemployment Benefits (OPEB) to its employees, are presented on pages 85-87 of this report.

Government-wide Financial Analysis

Total assets and deferred outflows at fiscal year-end amount to $1,835,616,418. Current and other assets comprise 36.94% and capital assets comprise 63.06% of the total assets. Total assets and deferred outflows increased $68,190,200 during the fiscal year primarily as a result of capital assets increasing $76,489,572 as a result of changes in construction in progress and land. Significant additions to fixed asset and construction in progress are described in the capital asset section of this overview and analysis.

Total liabilities at the end of the fiscal year amount to $1,028,199,380. Long-term liabilities comprise 91.27% and other liabilities comprise 8.73% of the total liabilities. Total liabilities increased $66,216,934 during the fiscal year.

As mentioned earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City, assets and deferred outflows exceeded liabilities (net position) by $807,417,038 for the fiscal year ended September 30, 2013. The largest portion of the City's net position (70.10%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and systems) less any related debt used to acquire those assets that is 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. An additional portion of the City's net position (23.10%) represents resources that are subject to external restrictions on how they may be used. These restrictions are detailed in revenue bond debt covenants, the City of Garland Charter, grant contracts, and state law. The remaining balance of unrestricted net assets (6.80%) may be used to meet the City's ongoing obligations to citizens and creditors.

A comparative schedule of condensed government-wide net position is presented on the following page.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets and deferred outflows	$ 146,397,659	$ 147,794,711	$ 531,754,724	$ 538,657,044	$ 678,152,383	$ 686,451,755
Capital assets	375,218,565	385,780,405	782,245,470	695,194,058	1,157,464,035	1,080,974,463
Total assets and deferred outflows	521,616,224	533,575,116	1,314,000,194	1,233,851,102	1,835,616,418	1,767,426,218
Long-term liabilities outstanding	335,443,535	341,663,779	603,012,064	540,921,155	938,455,599	882,584,934
Other liabilities	49,234,132	47,847,207	40,509,649	31,550,305	89,743,781	79,397,512
Total liabilities	384,677,667	389,510,986	643,521,713	572,471,460	1,028,199,380	961,982,446
Net position:						
Net investment in capital assets	127,763,560	95,930,730	438,249,356	346,557,013	566,012,916	442,487,743
Restricted for:						
Debt Service	4,691,533	2,206,544	3,739,680	2,518,448	8,431,213	4,724,992
Construction	1,531,005	5,188,023	-	-	1,531,005	5,188,023
Rate Mitigation	-	-	174,951,776	193,756,823	174,951,776	193,756,823
Housing Assistance	1,636,505	1,711,755	-	-	1,636,505	1,711,755
Unrestricted	1,315,954	39,027,078	53,537,669	118,547,358	54,853,623	157,574,436
Total net position	$ 136,938,557	$ 144,064,130	$ 670,478,481	$ 661,379,642	$ 807,417,038	$ 805,443,772

The total net position increased $3,786,515 in the 2013 fiscal year. Business-type activities contributed $9,098,839 to this increase while the governmental activities decreased this total by $5,312,324. These increases and decreases are discussed in the governmental activities section and the business-type activities section of this overview and analysis.

Schedule of Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	$ 39,146,893	$ 37,535,544	$ 414,978,701	$ 336,449,228	$ 454,125,594	$ 373,984,772
Operation grants and contributions	17,203,324	16,885,088	-	-	17,203,324	16,885,088
Capital grants and contributions	1,785,232	815,387	1,787,937	1,249,457	3,573,169	2,064,844
General Revenues:						
Property taxes	71,160,273	71,712,486	-	-	71,160,273	71,712,486
Sales taxes	23,537,389	22,684,164	-	-	23,537,389	22,684,164
Other taxes	9,833,804	9,003,805	-	-	9,833,804	9,003,805
Unrestricted interest earnings	266,319	648,009	42,619	1,703,509	308,938	2,351,518
Miscellaneous	59,186	85,561	1,701,278	2,092,995	1,760,464	2,178,556
Total Revenues	162,992,420	159,370,044	418,510,535	341,495,189	581,502,955	500,865,233
Expenses:						
General government	29,243,108	29,569,285	-	-	29,243,108	29,569,285
Public safety	92,128,110	90,755,164	-	-	92,128,110	90,755,164
Public works	40,870,496	41,666,670	-	-	40,870,496	41,666,670
Culture and recreation	21,442,173	20,805,012	-	-	21,442,173	20,805,012
Public health	4,322,827	4,018,652	-	-	4,322,827	4,018,652
Interest and fiscal charges	11,094,537	12,038,048	-	-	11,094,537	12,038,048
Electric	-	-	271,815,312	166,360,005	271,815,312	166,360,005
Water	-	-	43,758,542	40,702,500	43,758,542	40,702,500
Sewer	-	-	36,288,797	36,348,765	36,288,797	36,348,765
Golf	-	-	4,889,818	4,922,780	4,889,818	4,922,780
Heliport	-	-	5,365	85,480	5,365	85,480
Storm Water Management	-	-	3,926,814	3,519,113	3,926,814	3,519,113
Parks Performance	-	-	964,590	1,022,947	964,590	1,022,947
Sanitation	-	-	16,965,951	16,972,881	16,965,951	16,972,881
Total expenses	199,101,251	198,852,831	378,615,189	269,934,471	577,716,440	468,787,302
Increase in net position before transfers	(36,108,831)	(39,482,787)	39,895,346	71,560,718	3,786,515	32,077,931
Transfers	30,796,507	29,484,492	(30,796,507)	(29,484,492)	-	-
Increase (decrease) in net position	(5,312,324)	(9,998,295)	9,098,839	42,076,226	3,786,515	32,077,931
Restated Net position – beginning, see Note S	142,250,881	154,062,425	661,379,642	619,303,416	803,630,523	773,365,841
Net position - ending	$136,938,557	$ 144,064,130	$ 670,478,481	$ 661,379,642	$ 807,417,038	$ 805,443,772

Governmental activities

Governmental activities decreased the City's net position by $5,312,324 in fiscal year 2013; however, the change in net position improved from fiscal year 2012 by $4,685,971. Key factors that contributed to this improvement are discussed below.

Revenues by Source – Governmental Activities

Revenues by Source

	2013		2012		Amount	Percentage
	Amount	Percentage	Amount	Percentage	Change	Change
Charges for services	$ 39,146,893	24.02%	$ 37,535,544	23.03%	$ 1,611,349	4.29%
Operating grants and contributions	17,203,324	10.55%	16,885,088	10.36%	318,236	1.88.%
Capital grants and contributions	1,785,232	1.10%	815,387	0.50%	969,845	118.94%
Property taxes	71,160,273	43.66%	71,712,486	44.00%	(552,213)	-0.77%
Sales taxes	23,537,389	14.44%	22,684,164	13.92%	853,225	3.76%
Other taxes	9,833,804	6.03%	9,003,805	5.52%	829,999	9.22%
Unrestricted interest earnings	266,319	0.16%	648,009	0.40%	(381,690)	-58.90%
Miscellaneous	59,186	0.04%	85,561	0.05%	(26,375)	-30.83%
Total Revenues	$ 162,992,420		$ 159,370,044		$ 3,622,376	

Key changes in revenue by source included the following:

Charges for services increased $1,611,349 as a result of the following:
- Municipal Court and Red Light Enforcement revenues increased $866,702 as a result of an increase in the number of citations and increased collection efforts.
- Reimbursement of expenses related to rebuilding the shooting range and completion of the Spring Creek Trail of $1,049,987.

Capital grants and contributions increased $969,845 as a result of the following:
- Developers contributions increased $860,917 as a result of new construction within the City.
- Recovery of expenditures increased $108,928 as a result of a payoff related to drainage projects.

Expenses by Source - Governmental Activities

Expenses by Source

	2013	2012	Change
General government	$ 29,243,108	$ 29,569,285	$ (326,177)
Public safety	92,128,110	90,755,164	1,372,946
Public works	40,870,496	41,666,670	(796,174)
Culture and recreation	21,442,173	20,805,012	637,161
Public health	4,322,827	4,018,652	304,175
Interest and fiscal charges	11,094,537	12,038,048	(943,511)
Total Expense	$ 199,101,251	$ 198,852,831	$ 248,420

Key changes in expenses by source for governmental activities are as follows:

Public safety expenses increased $1,372,946 as a result of the following:

- Support services expenses increased $898,165.
- Personnel and related expenses increased in public safety in an effort to enhance the City's ability to enforce commercial property standards and enhance the public safety of citizens.

Public works expenses decreased $796,174 as a result of the following:

- Depreciation expense increased $222,246 as a result of new purchases in the fiscal year.
- Public work expenses decreased approximately $1,100,000 due to maintenance projects that were moved to fiscal year 2014.

Interest and fiscal charges decreased $943,511 as a result of the following:

- Interest expense decreased as a result of a decrease in accrued interest payable on long term debt.

Business-type Activities

Business-type activities increased the City's net position by $9,098,839; however, the change in net position decreased $32,977,387 from fiscal year 2012. Key factors that contributed to this decrease are discussed below.

- The electric utility generated net income of $5,881,590. The net income for the electric utility decreased $33,403,909 from the prior fiscal year as a result of the following:
    - Demand charges increased $33,837,466 as a result of debt refunding by Texas Municipal Power Agency (TMPA) in 2010, which lowered debt service payments in fiscal years 2011 and 2012, and increased debt service payments in fiscal year 2013 associated with TMPA's 1993 refunding revenue series.
    - Fuel and energy purchases expense increased $76,323,410 as a result of an increase in wholesale sales activity. It is also attributable to TMPA fuel expense due to the Gibbons Creek plant running more in fiscal year 2013 than in 2012.
    - Revenue from charges for services increased $74,638,173 as a result of an increase in wholesale sales activity.

- The water utility incurred a net income of $2,867,380. The net income for the water utility increased $514,429 over the net income from the prior year. Key elements to this change are as follows.
    - Charges for services increased $3,650,898 as a result of a rate increase of 9% that went into effect in October 2012.
    - Operating expenses increased $3,551,918 as a result of increased expenses for water purchases due to rate increase, and maintenance, repairs, and supplies.

- The sewer utility incurred a net income of $850,314. The net income for the sewer utility decreased $35,010 from the prior fiscal year as a result of the following:
    - Charges for services decreased $341,010 as a result of decreased consumption.
    - Operating expenses increased $304,383 as a result of decreased capitalized general and administrative expenses.

- The combined net loss for non-major enterprise funds (golf, heliport, storm water management, parks performance, and sanitation) amounted to $161,512. The City continues to monitor these funds and implement programs and strategies to improve their financial condition.

Revenues by Source – Business-type Activities

	Charges for Service			Capital Grants and Contributions			Miscellaneous		
	2013	2012	Amount Change	2013	2012	Amount Change	2013	2012	Amount Change
Electric	$ 296,866,570	$ 222,228,397	$ 74,638,173	$ 143,377	$ 312,370	$ (168,993)	$ 891,631	$ 1,472,387	$ (580,756)
Water	50,176,879	46,525,981	3,650,898	1,092,419	684,608	407,811	345,897	295,633	50,264
Sewer	41,831,894	42,172,904	(341,010)	552,141	202,479	349,662	279,876	64,454	215,422
Non-major Enterprise	26,103,358	25,521,946	581,412	-	50,000	(50,000)	183,874	260,521	(76,647)
Total	$ 414,978,701	$ 336,449,228	$ 78,529,473	$ 1,787,937	$ 1,249,457	$ 538,480	$ 1,701,278	$ 2,092,995	$ (391,717)

Expenses by Source – Business-type Activities

	2013	2012	Amount Change	Percentage Change
Electric	$271,815,312	$ 166,360,005	$105,455,307	63.39%
Water	43,758,542	40,702,500	3,056,042	7.51%
Sewer	36,288,797	36,348,765	(59,968)	-0.16%
Non-Major	26,752,538	26,523,201	229,337	0.86%
	$378,615,189	$ 269,934,471	$108,680,718	40.26%

Fiduciary funds

In the 2009 fiscal year, the City established an Other Post Employment Benefit Trust Fund which allows the City to capture long-term returns to make progress towards reducing the unfunded liability of post-employment health care. A payment of $100,000 contribution in excess of the pay-as-you-go costs was made to the trust fund during the 2013 fiscal year. The City will make future contributions to this trust fund as economic conditions permit.

Capital Asset and Debt Administration

Capital Assets

At the end of the 2013 fiscal year, the City had $1,157,464,035 invested in a broad range of capital assets including police and fire equipment, buildings, park facilities, roads, bridges, an electric system, a water system, and a sewer system. This amount represents a net increase of $76,489,572 or 7.08% increase from the prior fiscal year. Key elements of this change are as follows:

Capital Assets at Fiscal Year-end
(Net of Accumulated Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 82,577,005	$ 80,495,198	$ 20,095,639	$ 20,082,357	$ 102,672,644	$ 100,577,555
Construction in Progress	18,948,112	17,705,232	116,490,541	42,353,304	135,438,653	60,058,536
Building, Improvements, equipment and systems	273,693,448	287,579,975	645,659,290	632,758,397	919,352,738	920,338,372
Total capital assets	$ 375,218,565	$ 385,780,405	$ 782,245,470	$ 695,194,058	$1,157,464,035	$1,080,974,463

Major capital asset additions for the current fiscal year included (rounded to the nearest thousand):

Description	Amount
GP&L Distribution UG Conductors, Transformers, and Devices	$ 8,665
Water Distribution Mains up to 14 inch diameter	3,647
Rehabilitated Lavon Water Pump Station	3,570
Wastewater Laboratory Building	2,743
Jupiter/Shiloh Sewer Phase VI	2,533
Rowlett Creek WWTP Process Improvements	2,481
Cured-In-Place Pipe Mains and Lateral Rehabilitation	2,476
Major Rehabilitation of Wallace Pump Station and New Water Transmission Mains	2,404
Duck Creek WWTP Process Improvements	1,898
GP&L Generation Equipment	1,844
GP&L Sub-station Equipment	1,681
Petition Sidewalk, Curb, & Gutter Participation Program	1,680
Sewer Infiltration Corrections - Various	1,574
New Sidewalks	1,294
Articulated Dump Trucks for Landfill	1,204
Citywide Petition Drainage	1,034

A few of the Capital Improvement Program projects under construction at the end of the current fiscal year included (amounts rounded to the nearest thousand):

Description	Amount
GP&L CREZ Transmission Line	$72,249
Relocation of Water Mains Prior to Paving	3,815
Sewer Mains in Advance of Paving	2,883
GP&L Nevada Substation	2,300
Radio Read Water Meter Retrofit	1,819
Water Distribution Line Replacement	1,803
Pleasant Valley Road Bridge	1,586
Water Distribution Lines up to 14 inch diameter	1,452
GP&L UG Line Construction	1,388
West Pressure Plane Improvements	1,279
Duck Creek Sewer Sludge Transfer Station	1,278
Pleasant Valley-Firewheel Pkwy to Richfield	1,224
GP&L Rosehill Substation Transmission Lines	1,183
Water Transmission Lines 16" and above	1,081
Landfill Waste Cell 6	1,073

Additional information on the City's capital assets can be found in note IV.C. on pages 56-58 of this report.

Debt

Debt issues outstanding for the fiscal years 2013 and 2012 were as follows:

	Governmental Activities		Business-type Activities		Total		
	2013	2012	2013	2012	2013	2012	Change
Long-Term:							
General obligation bonds	$202,499,352	$218,769,750	$ 66,665,000	$ 75,000,000	$269,164,352	$293,769,750	$(24,605,398)
Certificates of obligation	72,005,000	65,310,000	130,820,000	130,665,000	202,825,000	195,975,000	6,850,000
Utility system revenue bonds	-	-	297,640,000	305,640,000	297,640,000	305,640,000	(8,000,000)
Commercial paper	-	-	80,000,000	10,000,000	80,000,000	10,000,000	70,000,000
Total Long-Term	274,504,352	284,079,750	575,125,000	521,305,000	849,629,352	805,384,750	44,244,602
Short-Term:							
Commercial Paper	10,000,000	10,000,000	-	-	10,000,000	10,000,000	-
Total Short-Term	10,000,000	10,000,000	-	-	10,000,000	10,000,000	-
Total outstanding debt	$284,504,352	$294,079,750	$575,125,000	$521,305,000	$859,629,352	$815,384,750	$ 44,244,602

During the fiscal year, the City issued the following debt:

Issue	Principal	Bond Ratings Standard & Poor's	Bond Ratings Fitch IBCA
Long-term			
Certificates of Obligation Bonds, Series 2013	$ 12,725,000	AA+	AAA
General Obligation Refunding Bonds, Series 2013	12,280,000	AA+	AAA
Electric Utility System Revenue Refunding Bonds, Series 2013	11,790,000	AA-	AA-
Water & Sewer System Revenue Refunding and Improvement Bonds, Series 2013	29,925,000	AA	AA+
Electric Commercial Paper, Series 2012A	40,000,000	A-1	F-1
Electric Commercial Paper, Series 2012B	40,000,000	A-1+	F-1
Short-term			
General Obligation Commercial Paper	10,000,000	A1+	F1+
Total debt financing	$156,720,000		

The proceeds of the Certificates of Obligation Bonds, Series 2013 will be used for the following:

- Constructing, equipping, and improving various facilities in the City,
- Improving and equipping the golf course and City Hall,
- Purchasing equipment for EWS, the street departments, and constructing improvements and purchasing equipment for management information services and fleet services departments.

The proceeds of the General Obligation Refunding Bonds, Series 2013 were used to advance refund General Obligation Bonds, Series 2008 at the call date. As a result of the refunding, the City decreased its total debt service payments.

The proceeds of the Electric Utility System Revenue Refunding Bonds, Series 2013 were used to advance refund Electric Utility System Revenue Bonds, Series 2005 at the call date. As a result of the refunding, the Electric Fund decreased its total debt service payments.

The proceeds of the Water & Sewer System Revenue Refunding and Improvement Bonds, Series 2013 were used to advance refund Water and Sewer System Revenue Bonds, Series 2005 and 2006 at the call date and for system improvements. As a result of the refunding, the Water and Sewer funds decreased their total debt service payments.

The City continued the use of short term financing with general obligation commercial paper notes. These financing tools provide interest savings. During the year, the City issued general obligation commercial paper notes amounting to $10,000,000 to fund various governmental construction projects.

In 2012, the City initiated a three year $135 million tax-exempt commercial paper program for the Electric Fund. Proceeds from the sale of commercial paper notes will be used for improvements and extensions of the electric utility system. The Electric Fund had $80,000,000 electric utility system commercial paper notes outstanding at fiscal year-end. Additional information related to the City's commercial paper programs can be found on page 66 of this report.

In fiscal year 2010, the City along with other TMPA member cities elected to issue bonds based on the percentage of their annual net energy load and placed the proceeds with TMPA. Since the proceeds from the issuance of this debt will benefit the City over future years the City has elected to record an other asset and a corresponding bonds payable liability, reoffering premium, interest and sinking fund deposit, underwriters discount and issuance cost to record this transaction. The other asset of $138,252,850 is being amortized using a straight-line method over a period of 20 years based on the life of the economic benefit that the City is receiving from this transaction. During the current fiscal year, the City amortized $6,912,643 of the asset resulting in a fiscal year-end balance in other assets of $114,058,601. This other asset will be reviewed annually to determine if it has been impaired based on changes at TMPA and or changes in the electric industry.

The City's variable rate interest General Obligation Bonds, Series 2007B, are subject to an interest rate cap. The object of this interest rate cap is to provide a 3.8% ceiling on the interest rate paid on these bonds. Under the terms of this interest cap agreement, Bank of America is required to pay the City the amount of interest paid to the bond holders in excess of 3.8%. In addition, this agreement requires the City to pay Bank of America a quarterly fee for this interest rate cap. This interest rate cap agreement results in an interest rate swap that qualifies this debt instrument as a derivative instrument. To terminate this interest rate cap agreement the City would have to pay Bank of America $537,499 based on the current interest rates and the net present value of the future fees to be paid to Bank of America. GASB 53 requires that the City record a liability and a deferred outflow of resources to reflect this potential liability. The City does not intend to terminate the interest rate swap with Bank of America before it is scheduled to end on August 15, 2015. Therefore, the City does not anticipate having to liquidate this liability with cash. Additional information related to this bond issue can be found in note IV.E. on pages 65-66 of this report.

Additional information on the City's debt can be found in note IV.E. of this report.

The City's Funds

At the close of the City's fiscal year, the governmental funds of the City reported a combined fund balance of $74,019,448, a decrease of $2,403,266 from the prior fiscal year. The decrease in the net change in fund balance for the Capital Projects Fund of $6,395,574 is attributable to capital project expenditures funded by general obligation commercial paper $10,000,000. This loan instrument is reported as a liability on the Capital Projects Fund balance sheet and not as other financing sources revenue on the statement of revenues, expenditures and changes in fund balance. General obligation bond proceeds will be recognized as revenue in the future when the City issues general obligation refunding bonds to refund the outstanding commercial paper.

The General Fund ended the fiscal year with a fund balance of $24,263,870 which was an increase of $2,200,349 from the prior fiscal year. The original budget projected a decrease in fund balance of $2,214,515 which was later revised to a decrease of $4,295,963 in fund balance. Favorable budget variances were experienced for revenues as well as expenditures for the fiscal year. Actual revenues and proceeds from the sale of capital assets exceeded final budgeted revenues by $3,061,508 and actual expenditures were under the final budget amount by $2,673,715. This favorable budget variance was a result of better than anticipated property tax revenues, franchise fees, licenses and permits, sale of capital assets and other operational expenditure savings across General Fund departments.

The Debt Service Fund ended the fiscal year with a fund balance of $6,314,007 due to a net increase in fund balance for the fiscal year of $1,072,974. This increase in fund balance was the result of a decrease in the transfer of funds of $5,439,999 and an increase in principal and interest payments of $3,270,427.

General Fund Budgetary Highlights

During the fiscal year ended September 30, 2013, the City Council amended the budget for the General Fund on several occasions. The amendments were comprised of supplemental appropriations and adjusted budgets. Appropriations are adjusted annually for open purchase orders and various grant awards. Budgets are reviewed and adjusted during the fiscal year to address changing operational and/or economic situations. These amendments amounted to increased appropriations of $669,275.

Economic Factors and Next Year's Budgets and Rates

The City's unemployment rate at September 30, 2013 was 6.3% and the State of Texas unemployment rate was 7.2%. The City's estimated population of 231,618 (as estimated at January 1, 2013 by the City's Planning department) remained virtually unchanged from the prior year.

The primary focus of the 2013 Adopted Budget was to maintain the current Ad Valorem Tax rate and current City service levels while providing increases in compensation for City employees to the extent funding would allow. To address the 2013 economic forecast concerns, the City implemented the following measures in the 2012-13 adopted budget:

- Maintain property tax rate at 70.46 cents per $100 of valuation.
- Maintain current service levels to the highest extent possible.
- Provide employee compensation increases to the extent funding will allow.

No rate increases were included in the 2013 Adopted Budget for Electric, Wastewater, or Stormwater services. Fiscal year 2012-13 was the first year that the Electric Utility made draws from the Rate Mitigation Fund. These draws were made in order to offset increasing Debt Service cost being passed on to member cities by the Texas Municipal Power Agency (TMPA). Additional draws are anticipated each year until 2018.

The primary focus of the FY 2013-14 Budget was to maintain the Ad Valorem Tax rate and City service at current levels while providing increases in compensation for City employees to the extent funding would allow. In addition, finding an affordable solution for employee and retiree healthcare costs was a significant priority.

- Maintain property tax rate at 70.46 cents per $100 of valuation.
- Maintain current service levels to the highest extent possible.
- Provide employee compensation increases to the extent funding will allow.
- Mitigate significant increases in employee and retiree healthcare costs.

Fiscal year 2013-14 will be the second year that the Electric Utility will draw from the Rate Mitigation Fund in order to offset increasing debt service costs being passed on to member cities by the TMPA and higher energy costs. Additional draws are anticipated each year until 2018. No rate increases were included in the FY2013-14 Budget and TMPA fuel costs show a modest increase of $2.4 million (9.4%), while TMPA demand costs are projected to decrease by $5.7 million or 9.3%.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Services Department at the City of Garland, 200 North Fifth Street, Garland, TX 75040 or through the City's internet site (www.garlandtx.gov).

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City of Garland, Texas
Statement of Net Position
September 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	As of December 31, 2012
ASSETS				
Cash and cash equivalents	$ 46,119,503	$ 26,397,456	$ 72,516,959	$ 585,314
Investments	78,405,151	49,343,067	127,748,218	-
Accounts Receivable, net of allowance for uncollectibles	14,969,591	74,450,685	89,420,276	51,043
Due from other governments	918,596	-	918,596	-
Internal Balances	(10,693,702)	10,693,702	-	-
Inventories	5,572,382	6,198,904	11,771,286	-
Prepaid and other items	-	2,300,760	2,300,760	-
Restricted Assets:				
Cash and cash equivalents	4,229,684	44,605,281	48,834,965	-
Investments	3,923,596	197,048,186	200,971,782	-
Accrued interest	3,833	269,998	273,831	-
Deferred bond issuance costs	2,338,466	5,870,223	8,208,689	-
Assets held for resale	73,060	-	73,060	494,307
Capital Assets:				
Land	82,577,005	20,095,639	102,672,644	1,140,710
Construction in Progress	18,948,112	116,490,541	135,438,653	-
Buildings, Improvements,				
Equipment and System (net of accumulated depreciation)	273,693,448	645,659,290	919,352,738	-
Other Assets	-	114,563,818	114,563,818	-
Total assets	521,078,725	1,313,987,550	1,835,066,275	2,271,374
Deferred Outflows				
Fair value of interest rate cap	537,499	-	537,499	-
Fair value of energy risk derivatives	-	12,644	12,644	-
Total deferred outflows	537,499	12,644	550,143	-
LIABILITIES				
Accounts payable and accrued liabilities	18,385,299	37,318,533	55,703,832	-
Escrow payable	239,195	-	239,195	-
Retainage payable	169,646	737,467	907,113	-
Accrued interest payable	1,622,474	2,441,005	4,063,479	-
Customer deposits	12,600,911	-	12,600,911	-
Commercial Paper	10,000,000	-	10,000,000	-
Interest rate cap	537,499	-	537,499	-
Derivative instrument-energy risk management	-	12,644	12,644	-
Due to other governments	571,687	-	571,687	-
Unearned revenue	5,107,421	-	5,107,421	1,206,625
Noncurrent Liabilities:				
Due within one year	36,946,213	30,097,740	67,043,953	-
Due in more than one year	298,497,322	572,914,324	871,411,646	-
Total liabilities	384,677,667	643,521,713	1,028,199,380	1,206,625
NET POSITION				
Net investment in capital assets	127,763,560	438,249,356	566,012,916	1,140,710
Restricted for:				
Debt Service	4,691,533	3,739,680	8,431,213	-
Construction	1,531,005	-	1,531,005	-
Rate Mitigation	-	174,951,776	174,951,776	-
Housing	1,636,505	-	1,636,505	-
Unrestricted net position	1,315,954	53,537,669	54,853,623	(75,961)
Total net position	$ 136,938,557	$ 670,478,481	$ 807,417,038	$ 1,064,749

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Statement of Activities
For the Year Ended September 30, 2013

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	Expenses	Charges for services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit for three months ended 12/31/12
Primary Government								
Governmental activities:								
General government	$ 29,243,108	$ 6,792,917	$ 14,601,429	$ -	$ (7,848,762)	$ -	$ (7,848,762)	$ -
Public safety	92,128,110	15,467,011	2,058,379	-	(74,602,720)	-	(74,602,720)	-
Public works	40,870,496	14,626,584	-	1,785,232	(24,458,680)	-	(24,458,680)	-
Culture and recreation	21,442,173	1,726,202	76,236	-	(19,639,735)	-	(19,639,735)	-
Public health	4,322,827	534,179	467,280	-	(3,321,368)	-	(3,321,368)	-
Interest and fiscal charges	11,094,537	-	-	-	(11,094,537)	-	(11,094,537)	-
Total governmental activities	199,101,251	39,146,893	17,203,324	1,785,232	(140,965,802)	-	(140,965,802)	-
Business type activities:								
Electric	271,815,312	296,866,570	-	143,377	-	25,194,635	25,194,635	-
Water	43,758,542	50,176,879	-	1,092,419	-	7,510,756	7,510,756	-
Sewer	36,288,797	41,831,894	-	552,141	-	6,095,238	6,095,238	-
Golf	4,889,818	3,677,689	-	-	-	(1,212,129)	(1,212,129)	-
Heliport	5,365	6,865	-	-	-	1,500	1,500	-
Storm Water Management	3,926,814	3,824,990	-	-	-	(101,824)	(101,824)	-
Parks Performance	964,590	1,124,046	-	-	-	159,456	159,456	-
Sanitation	16,965,951	17,469,768	-	-	-	503,817	503,817	-
Total business-type activities	378,615,189	414,978,701	-	1,787,937	-	38,151,449	38,151,449	-
Total primary government	$ 577,716,440	$ 454,125,594	$ 17,203,324	$ 3,573,169	(140,965,802)	38,151,449	(102,814,353)	-
Component units								
Garland Housing Finance Corp.	$ 33,348	$ 8,632	$ -	-	-	-	-	(24,716)
	$ 33,348	$ 8,632	$ -	$ -				
		General revenues:						
		Sales taxes			23,537,389	-	23,537,389	-
		Franchise fees			8,646,942	-	8,646,942	-
		Property taxes			71,160,273	-	71,160,273	-
		Hotel/Motel taxes			825,003	-	825,003	-
		Mixed drink taxes			255,607	-	255,607	-
		Bingo taxes			106,252	-	106,252	-
		Unrestricted investment earnings			266,319	42,619	308,938	4,978
		Miscellaneous			59,186	1,701,278	1,760,464	-
		Transfers			30,796,507	(30,796,507)	-	-
		Total general revenues and transfers			135,653,478	(29,052,610)	106,600,868	4,978
		Change in net position			(5,312,324)	9,098,839	3,786,515	(19,738)
		Net position-beginning as restated, see Note S			142,250,881	661,379,642	803,630,523	1,084,487
		Net position-ending			$ 136,938,557	$ 670,478,481	$ 807,417,038	$ 1,064,749

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Governmental Funds
Balance Sheet
September 30, 2013

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 9,246,724	$ 6,272,645	$ 13,551,727	$ 3,743,267	$ 32,814,363
Investments	17,754,937	-	29,609,350	6,886,048	54,250,335
Receivables:					
Accounts, net	9,017,838	-	-	4,012,654	13,030,492
Taxes, net	548,030	432,026	-	-	980,056
Accrued interest	34,623	1,741	37,673	8,391	82,428
Assessments	17,194	-	-	-	17,194
Other	-	-	-	-	-
Due from other funds	2,044,828	-	1,005,118	-	3,049,946
Due from other governments	302,814	-	-	615,782	918,596
Assets held for resale	-	-	-	73,060	73,060
Restricted assets:					
Cash and cash equivalents	-	-	-	2,188,065	2,188,065
Total Assets	$ 38,966,988	$ 6,706,412	$ 44,203,868	$ 17,527,267	$ 107,404,535
LIABILITIES					
Accounts payable and accrued liabilities	$ 10,341,334	$ 19,667	$ 1,790,247	$ 546,128	$ 12,697,376
Escrow payable	-	-	-	239,195	239,195
Due to other funds	5,118	-	160,820	265,776	431,714
Unearned/unavailable revenues	4,341,353	372,738	182,502	4,391,358	9,287,951
Due to other governments	-	-	-	571,687	571,687
Retainage payable	15,313	-	141,851	-	157,164
Commercial paper	-	-	10,000,000	-	10,000,000
Total Liabilities	14,703,118	392,405	12,275,420	6,014,144	33,385,087
FUND BALANCES					
Fund balances:					
Restricted	1,531,005	6,314,007	31,928,448	4,127,675	43,901,135
Committed	-	-	-	7,385,448	7,385,448
Assigned	4,480,000	-	-	-	4,480,000
Unassigned	18,252,865	-	-	-	18,252,865
Total Fund Balances	24,263,870	6,314,007	31,928,448	11,513,123	74,019,448
Total Liabilities and Fund Balances	$ 38,966,988	$ 6,706,412	$ 44,203,868	$ 17,527,267	$ 107,404,535

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Governmental Funds
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2013

Total fund balances - governmental funds	$	74,019,448
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		321,472,241
Certain receivables will be collected this year, but are not available soon enough to pay for the current period's expenditures and are, therefore, deferred in the funds.		4,180,530
Bond interest is not accrued at the fund level.		(1,434,220)
Deferred bond issuance costs are not reported at the fund level.		1,938,773
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Long-term liabilities consist of:		
Bonds payable		(242,669,352)
Landfill closure costs		(8,760,996)
Compensated absences		(18,788,447)
Unamortized premium, loss on refunding, and bond issue costs		(8,264,932)
Other Post Employment Benefits liability payable		(7,517,487)
Internal service funds net asset adjustment excluding assets and liabilities included in the adjustments listed above. Internal service funds are used by management to charge the costs of various services to individual funds. Certain assets and liabilities of the internal service funds are included with governmental activities in the statement of net position.		25,026,774
Total net position - governmental activities	$	139,202,332

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended September 30, 2013

	General	Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 63,253,894	$ 31,126,521	$ -	$ 1,413,579	$ 95,793,994
Franchise fees	8,646,942	-	-	-	8,646,942
Service charges	20,239,605	-	-	-	20,239,605
Licenses and permits	3,393,137	-	-	-	3,393,137
Earnings on investments	213,732	18,066	4,831	6,459	243,088
Intergovernmental	1,190,211	-	-	14,889,614	16,079,825
Intragovernmental	7,973,376	-	-	-	7,973,376
Fines and forfeits	6,955,299	-	-	-	6,955,299
Rents and concessions	804,298	-	-	-	804,298
Assessments	-	-	61,779	-	61,779
Impact Fees	-	-	-	377,520	377,520
Program income	-	-	-	365,103	365,103
Special event income	-	-	-	216,026	216,026
Court awarded seizures	-	-	-	192,737	192,737
Miscellaneous and other	-	-	1,384,555	957,551	2,342,106
Total revenues	112,670,494	31,144,587	1,451,165	18,418,589	163,684,835
EXPENDITURES					
Current:					
General government	9,679,317	-	141,535	-	9,820,852
Public safety	78,338,393	-	-	-	78,338,393
Public works	17,391,246	-	-	-	17,391,246
Culture and recreation	13,218,113	-	-	-	13,218,113
Public health	3,579,737	-	-	-	3,579,737
Nondepartmental	21,243,401	-	-	-	21,243,401
Operations	-	-	-	15,974,313	15,974,313
Capital outlay	-	-	16,954,849	1,505,278	18,460,127
Debt service:					
Principal	-	17,370,398	-	-	17,370,398
Interest	-	11,900,025	-	-	11,900,025
Issue costs on issuance of debt	-	160,687	167,631	-	328,318
Other and fiscal expenditures	-	339,837	-	-	339,837
Total expenditures	143,450,207	29,770,947	17,264,015	17,479,591	207,964,760
Excess (deficiency) of revenues over (under) expenditures	(30,779,713)	1,373,640	(15,812,850)	938,998	(44,279,925)
OTHER FINANCING SOURCES (USES)					
Proceeds from sale of capital assets	361,687	-	80,000	86,500	528,187
Transfers in	34,515,966	552,682	2,664,645	114,305	37,847,598
Transfers out	(1,897,591)	(86,444)	(4,805,000)	(420,818)	(7,209,853)
Issuance of debt	-	-	10,790,000	-	10,790,000
Premium on issuance of debt	-	543,096	687,631	-	1,230,727
Issuance of refunding bonds	-	6,650,000	-	-	6,650,000
Payment to refunded bonds escrow agent	-	(7,960,000)	-	-	(7,960,000)
Total other financing sources (uses)	32,980,062	(300,666)	9,417,276	(220,013)	41,876,659
Net change in fund balance	2,200,349	1,072,974	(6,395,574)	718,985	(2,403,266)
Fund balances - beginning	22,063,521	5,241,033	38,324,022	10,794,138	76,422,714
Fund balances - ending	$ 24,263,870	$ 6,314,007	$ 31,928,448	$ 11,513,123	$ 74,019,448

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities
For the Year Ended September 30, 2013

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

Net change in fund balances - total governmental funds	$ (2,403,266)
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.	(8,142,489)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	144,524
The issuance of long-term debt (e.g., bonds, leases) 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 activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	7,385,714
Other Post Employment Benefits liability is accrued in the government wide financial statements but not at the fund level.	451,679
Interest is accrued in the government wide financial statements but not at the fund level. This represents the change in the accrual during the period.	1,413,665
Internal service funds are used by management to charge the costs of vehicle services, building services, printing services, and insurance services to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.	(1,446,698)
Net change in net position-total governmental activities	$ (2,596,871)

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2013

	Business-type Activities					Governmental Activities
	Electric	**Water**	**Sewer**	**Other Nonmajor Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
ASSETS						
Current assets:						
Cash and cash equivalents	$ 16,786,643	$ 3,110,197	$ 5,867,068	$ 633,548	$ 26,397,456	$ 13,305,139
Investments	30,979,650	5,973,319	11,273,255	1,116,843	49,343,067	24,154,815
Receivable, net of allowance	60,681,407	6,925,811	4,480,283	2,306,081	74,393,582	830,657
Accrued interest	33,933	6,856	14,738	1,576	57,103	28,763
Inventories	6,150,086	-	-	48,818	6,198,904	5,572,382
Prepaid Expense	2,300,760	-	-	-	2,300,760	-
Total current assets	116,932,479	16,016,183	21,635,344	4,106,866	158,690,872	43,891,756
Noncurrent Assets:						
Restricted assets						
Revenue bond retirement fund:						
Cash and cash equivalents	160,885	-	-	-	160,885	-
Total revenue bond retirement fund	160,885	-	-	-	160,885	-
Revenue bond reserve fund:						
Cash and cash equivalents	-	1,352,817	2,225,978	-	3,578,795	-
Total revenue bond reserve fund	-	1,352,817	2,225,978		3,578,795	-
Rate mitigation:						
Cash and cash equivalents	8,364,205	-	-	-	8,364,205	-
Investments	166,357,971	-	-	-	166,357,971	-
Accrued interest	229,600	-	-	-	229,600	-
Total rate mitigation	174,951,776	-	-	-	174,951,776	-
Construction funds:						
Cash and cash equivalents	19,409,310	3,311,588	9,130,688	649,810	32,501,396	2,041,620
Investments	5,528,005	6,367,281	17,549,088	1,245,841	30,690,215	3,923,596
Accrued interest	6,083	8,992	23,085	2,238	40,398	3,833
Total construction funds	24,943,398	9,687,861	26,702,861	1,897,889	63,232,009	5,969,049
Capital Assets:						
Land	5,078,858	1,491,430	2,338,807	11,186,544	20,095,639	221,949
Buildings, improvements, equipment and systems	426,218,077	240,590,732	429,550,285	32,849,437	1,129,208,531	94,825,238
Construction in progress	83,968,380	20,050,075	12,044,604	427,482	116,490,541	3,090,434
Less accumulated depreciation	(170,757,000)	(96,933,855)	(196,084,515)	(19,773,871)	(483,549,241)	(44,391,297)
Net capital assets	344,508,315	165,198,382	247,849,181	24,689,592	782,245,470	53,746,324
Unamortized bond issuance cost	2,944,700	1,216,264	1,655,432	53,827	5,870,223	399,693
Other Assets	114,563,818	-	-	-	114,563,818	-
Advance to other funds	3,896,269	-	-	-	3,896,269	-
Total noncurrent assets	665,969,161	177,455,324	278,433,452	26,641,308	1,148,499,245	60,115,066
Total Assets	$ 782,901,640	$ 193,471,507	$ 300,068,796	$ 30,748,174	$ 1,307,190,117	$ 104,006,822
Deferred Outflows						
Fair value of energy risk derivatives	$ 12,644	$ -	$ -	$ -	$ 12,644	$ -

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Net Position
September 30, 2013

	Business-type Activities					Governmental Activities
	Electric	**Water**	**Sewer**	**Other Nonmajor Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
LIABILITIES						
Current liabilities:						
Payable from current assets						
Accounts payable and accrued liabilities	$ 16,564,925	$ 2,447,173	$ 893,938	$ 608,838	$ 20,514,874	$ 5,516,600
Due to other funds	1,000,000	-	-	1,156,210	2,156,210	462,022
Insurance claims payable	-	-	-	-	-	4,741,877
Accrued interest payable:						
General obligation bonds	266,303	49,846	136,441	-	452,590	5,405
Certificates of obligation	799,708	-	-	30,170	829,878	182,849
Revenue bonds	351,082	362,992	444,463	-	1,158,537	-
Customer deposits	-	-	-	-	-	12,600,911
General obligation bonds	5,095,000	935,000	2,440,000	-	8,470,000	50,000
Certificates of obligation	105,000	-	-	1,070,000	1,175,000	2,115,000
Revenue bonds	6,140,000	4,420,000	6,965,000	-	17,525,000	-
Capital lease-current portion	-	-	-	-	-	31,755
OPEB liability-current	426,586	114,712	173,861	249,141	964,300	451,679
Compensated absences	1,142,014	220,309	314,514	286,603	1,963,440	633,570
Total current liabilities	31,890,618	8,550,032	11,368,217	3,400,962	55,209,829	26,791,668
Long-term Liabilities:						
Payable from restricted assets						
Accounts payable	14,554,587	734,806	1,359,492	154,774	16,803,659	171,322
Retainage payable	-	409,230	328,237	-	737,467	12,482
Total payable from restricted assets	14,554,587	1,144,036	1,687,729	154,774	17,541,126	183,804
Advances from other funds	-	-	-	-	-	3,896,269
Revenue bonds payable (net of unamortized premium)	87,833,082	86,206,082	115,793,541	-	289,832,705	-
Certificates of obligation (net of unamortized premium)	136,575,781	-	-	3,062,300	139,638,081	29,531,677
General obligation bonds (net of unamortized premium and defeased bond costs)	36,339,985	5,951,037	17,595,189	-	59,886,211	831,894
Commercial paper	80,000,000	-	-	-	80,000,000	-
Capital lease	-	-	-	-	-	33,343
Derivative instruments-energy risk management	12,644	-	-	-	12,644	-
Insurance claims payable	-	-	-	-	-	7,146,121
OPEB liability	1,461,420	367,313	586,319	834,535	3,249,587	1,495,323
Compensated absences	238,769	863	32,783	35,325	307,740	116,307
Total other liabilities	342,461,681	92,525,295	134,007,832	3,932,160	572,926,968	43,050,934
Total Liabilities	388,906,886	102,219,363	147,063,778	7,487,896	645,677,923	70,026,406
NET POSITION						
Net investment in capital assets	209,648,278	76,230,088	130,070,583	22,300,407	438,249,356	27,002,998
Restricted for:						
Debt Service	160,885	1,352,817	2,225,978	-	3,739,680	-
Rate Mitigation	174,951,776	-	-	-	174,951,776	-
Unrestricted	9,246,459	13,669,239	20,708,457	959,871	44,584,026	6,977,419
Total net position	$ 394,007,398	$ 91,252,144	$ 153,005,018	$ 23,260,278	661,524,838	$ 33,980,417

Some amounts reported for business-type activities in the Statement of Net Position are different because certain internal service fund assets and liabilities are included with business-type activities.	8,953,643
Net assets of business type activities	$ 670,478,481

The notes to the financial statements are an integral part of this statement.

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City of Garland, Texas
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended September 30, 2013

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES:						
Charges for services	$ 296,866,570	$ 50,176,879	$ 41,831,894	$ 26,103,358	$ 414,978,701	$ 46,278,655
Insurance premiums	-	-	-	-	-	27,474,972
Other	891,631	345,897	279,876	183,874	1,701,278	1,642,364
Total Operating Revenues	297,758,201	50,522,776	42,111,770	26,287,232	416,679,979	75,395,991
OPERATING EXPENSES:						
Salaries and benefits	21,106,404	4,527,951	6,821,384	9,344,047	41,799,786	16,662,140
Demand charges	56,788,485	-	-	-	56,788,485	-
Amortization of other assets	6,912,643	-	-	-	6,912,643	
Energy and fuel purchases	136,202,089	-	-	-	136,202,089	-
Water purchases	-	22,431,264	-	-	22,431,264	-
Landfill fees	-	-	-	3,856,038	3,856,038	-
Maintenance, repairs, and other	12,169,585	4,735,091	8,351,407	8,328,916	33,584,999	17,939,015
Insurance and other expenses	3,057,223	260,407	443,197	635,426	4,396,253	-
General and administrative	11,421,559	4,405,943	4,377,028	2,057,201	22,261,731	6,872,114
Capitalized general and administrative	-	(770,177)	(72,163)	-	(842,340)	-
Premiums	-	-	-	-	-	7,474,566
Claims	426,586	114,712	173,861	249,141	964,300	19,005,953
Administrative services	-	-	-	-	-	1,020,144
Depreciation	12,018,431	6,068,923	12,237,872	2,203,115	32,528,341	7,084,128
Total Operating Expenses	260,103,005	41,774,114	32,332,586	26,673,884	360,883,589	76,058,060
Total Operating Income (Loss)	$ 37,655,196	$ 8,748,662	$ 9,779,184	$ (386,652)	$ 55,796,390	$ (662,069)
NONOPERATING REVENUES (EXPENSES)						
Gain (loss) on disposal of capital assets	$ (1,219,947)	$ -	$ 5,487	$ 27,035	$ (1,187,425)	$ 85,096
Investment income (loss)	(30,072)	22,172	48,250	2,269	42,619	23,233
Interest expense	(10,249,362)	(1,945,132)	(3,929,106)	(81,642)	(16,205,242)	(1,390,653)
Income (loss) before transfers and contributions	26,155,815	6,825,702	5,903,815	(438,990)	38,446,342	(1,944,393)
Capital contributions	143,377	1,092,419	552,141	-	1,787,937	-
TRANSFERS						
Transfers in	1,242,049	-	-	1,905,000	3,147,049	1,807,773
Transfers out	(21,659,651)	(5,050,741)	(5,605,642)	(1,627,522)	(33,943,556)	(1,649,011)
Net transfers	(20,417,602)	(5,050,741)	(5,605,642)	277,478	(30,796,507)	158,762
NET INCOME (LOSS)	5,881,590	2,867,380	850,314	(161,512)	9,437,772	(1,785,631)
Net position, beginning of year as restated, see Note S	388,125,808	88,384,764	152,154,704	23,421,790	652,087,066	35,766,048
Net position, end of year	$ 394,007,398	$ 91,252,144	$ 153,005,018	$ 23,260,278	661,524,838	$ 33,980,417
Some amounts reported for business-type activities in the Statement of Activities are different because the net revenue of certain internal service funds is reported with business type activities					(338,933)	
Change in net position of business-type activities					$ 9,098,839	

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2013

	Business-type Activities					Governmental Activities
	Electric	**Water**	**Sewer**	**Other Nonmajor Enterprise Funds**	**Total Enterprise Funds**	**Internal Service Funds**
Cash flows from operating activities:						
Cash received from customers	$ 273,516,532	$ 49,786,247	$ 41,591,481	$ 26,050,888	$ 390,945,148	$ 73,826,785
Cash received for customer deposit	-	-	-	-	-	591,776
Cash paid to suppliers	(217,630,825)	(30,657,239)	(12,994,235)	(14,784,088)	(276,066,387)	(49,995,194)
Cash paid to employees for services	(20,958,867)	(4,515,043)	(6,801,398)	(9,349,282)	(41,624,590)	(16,571,335)
Other operating revenues	891,631	345,896	279,877	183,875	1,701,279	1,642,364
Net cash provided by operations	35,818,471	14,959,861	22,075,725	2,101,393	74,955,450	9,494,396
Cash flows from noncapital financing activities:						
Due to other funds increases (decreases)	690,862	127,801	42,892	(262,457)	599,098	(1,160,896)
Due from other funds decreases (increases)	343,774	(226)	-	-	343,548	-
Due to other governments decreases	-	-	-	(227)	(227)	-
Transfers in	1,242,049	-	-	1,905,000	3,147,049	1,807,773
Transfers out	(21,659,653)	(5,050,741)	(5,605,642)	(1,627,522)	(33,943,558)	(1,649,011)
Net cash provided by (used for) noncapital financing activities	(19,382,968)	(4,923,166)	(5,562,750)	14,794	(29,854,090)	(1,002,134)
Cash flows from capital and related financing activities:						
Proceeds from sales of:						
Certificates of obligation	-	-	-	1,395,000	1,395,000	540,000
Revenue bonds	11,790,000	18,610,000	11,315,000	-	41,715,000	-
General obligation bonds	1,775,000	1,440,000	2,395,000	-	5,610,000	20,000
Premium on issuance of debt	278,525	826,674	720,738	109,541	1,935,478	35,676
Commercial paper	80,000,000	-	-	-	80,000,000	-
Acquisition and construction of capital assets	(72,049,548)	(15,725,497)	(9,871,519)	(2,646,823)	(100,293,387)	(6,530,542)
Principal paid on:						
Revenue bonds	(5,985,000)	(3,780,000)	(6,585,000)	-	(16,350,000)	-
Certificates of obligation	(45,000)	-	-	(1,195,000)	(1,240,000)	(2,170,000)
General obligation bonds	(4,470,000)	(830,000)	(2,220,000)	-	(7,520,000)	(45,000)
Advance from other funds (decrease)	13,458	-	-	(13,458)	-	-
Payment to escrow agent	(13,979,346)	(13,000,319)	(14,469,539)	-	(41,449,204)	(30,321)
Capital lease	-	-	-	-	-	(30,243)
Commercial paper	(10,000,000)	-	-	-	(10,000,000)	-
Interest paid on:						
Revenue bonds	(4,155,808)	(3,564,872)	(5,066,516)	-	(12,787,196)	-
Certificates of obligation	(6,259,039)	-	-	(90,222)	(6,349,261)	(1,338,242)
General obligation bonds	(2,110,604)	(299,379)	(937,965)	-	(3,347,948)	(83,154)
Commercial paper	(660,872)	-	-	-	(660,872)	-
Advances from other funds	-	-	-	(645)	(645)	-
Capital lease	-	-	-	-	-	(4,768)
Bond issue expense	(250,275)	(290,170)	(193,906)	(19,541)	(753,892)	(10,857)
Contributions	-	75,157	6,457	-	81,614	-
Proceeds from sales of assets	13,796	-	16,803	225,785	256,384	250,532
Net cash used for capital and related financing activities	(26,094,713)	(16,538,406)	(24,890,447)	(2,235,363)	(69,758,929)	(9,396,919)

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Proprietary Funds
Statement of Cash Flows
For the Year Ended September 30, 2013

	Business-type Activities					Governmental Activities
	Electric	Water	Sewer	Other Nonmajor Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from investing activities:						
Purchase of investment securities	(187,978,191)	(12,151,030)	(32,060,730)	(2,522,950)	(234,712,901)	(29,622,295)
Proceeds from sale and maturities of investment securities	156,210,653	13,464,036	31,327,105	2,144,281	203,146,075	24,663,865
Interest (loss) received on investments	1,100,311	24,932	49,481	1,343	1,176,067	19,925
Net cash provided by (used for) investing activities	(30,667,227)	1,337,938	(684,144)	(377,326)	(30,390,759)	(4,938,505)
Net decrease in cash and cash equivalents	(40,326,437)	(5,163,773)	(9,061,616)	(496,502)	(55,048,328)	(5,843,162)
Cash and cash equivalents at beginning of the year	85,047,480	12,938,375	26,285,350	1,779,860	126,051,065	21,189,921
Cash and cash equivalents at end of the year	$ 44,721,043	$ 7,774,602	$ 17,223,734	$ 1,283,358	$ 71,002,737	$ 15,346,759
Reconciliation of Operating Income (loss) to Net Cash Provided by Operating Activities						
Operating income (loss)	$ 37,655,196	$ 8,748,662	$ 9,779,184	$ (386,652)	$ 55,796,390	$ (662,069)
Adjustments:						
Depreciation expense	12,018,431	6,068,923	12,237,872	2,203,115	32,528,341	7,084,128
Change in allowance for uncollectible accounts	10,020	(52,603)	(62,146)	(5,518)	(110,247)	-
Change in assets and liabilities						
Increase in accounts receivable	(23,360,059)	(338,029)	(178,267)	(46,952)	(23,923,307)	73,157
Increase in inventory	(1,510,236)	-	-	(48,818)	(1,559,054)	324,210
Decrease in other assets	6,407,426	-	-	-	6,407,426	-
(Increase) decrease in other prepaid expense	(465,509)	-	-	24,949	(440,560)	-
Increase in accounts payable	4,489,079	405,288	105,235	117,363	5,116,965	1,166,183
Increase (decrease) in compensated absences	147,537	12,908	19,986	(5,235)	175,196	28,072
Increase in customer deposits	-	-	-	-	-	591,776
Increase in OPEB payable	426,586	114,712	173,861	249,141	964,300	451,679
Decrease in insurance claims payable	-	-	-	-	-	437,260
Total adjustments	(1,836,725)	6,211,199	12,296,541	2,488,045	19,159,060	10,156,465
Net cash provided by operating activities	$ 35,818,471	$ 14,959,861	$ 22,075,725	$ 2,101,393	$ 74,955,450	$ 9,494,396
Noncash investing, capital and financing activities:						
Contributions from developers	143,377	1,017,262	545,685	-	1,706,324	-
Capitalized general & administrative expense	-	770,177	72,163	-	842,340	-
Capitalized Revenue Bond Interest	1,760,125	1,804,679	1,742,001	-	5,306,805	-
Loss on fair market value of investments	(1,161,657)	-	-	-	(1,161,657)	-
Change in restricted accounts payable	(13,322,041)	(201,554)	(413,708)	(44,241)	(13,981,544)	(112,922)

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Statement of Fiduciary Net Position
Fiduciary Funds
September 30, 2013

		Other Post Employment Benefits Trust Fund
Assets		
Investments:		
Equity mutual funds	$	358,162
Fixed income mutual funds		375,552
Money market fund		28,983
Total Investments		762,697
Total assets	$	762,697
Net Position		
Held in trust for other post employmenet benefits and other purposes		762,697
	$	762,697

The notes to the financial statements are an integral part of this statement.

City of Garland, Texas
Fiduciary Funds
Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended September 30, 2013

		Other Post Employment Benefits Trust Fund
Additions		
Earnings from investments	$	63,825
Employer contributions		3,709,475
Retiree contributions		2,216,266
Total additions		5,989,566
Deductions		
Administrative expenses		5,362
Payments to beneficiaries		5,825,741
Total deductions		5,831,103
Change in net position		158,463
Net position, beginning of year		604,234
Net position, end of year	$	762,697

The notes to the financial statements are an integral part of this statement.

GARLAND

TEXAS MADE HERE

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City is a municipal corporation governed by an elected mayor and eight-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable.

Discretely Presented Component Unit
The Garland Housing Finance Corporation (GHFC) was organized to finance the cost of residential ownership and development that will provide decent, safe and sanitary housing for residents of the City at affordable prices. GHFC is governed by a board of directors that are appointed by and serve at the discretion of the City Council. GHFC is reported as a proprietary entity and maintains their accounts on an accrual basis of accounting. On October 1, 2012, GHFC hired an outside accounting firm to conduct their bookkeeping and accounting. The financial information for GHFC is included in the statements for the stub period of October 1, 2012 through December 31, 2012. Complete separate December 31, 2012 financial statements for GHFC may be obtained from the City.

Blended Component Unit
The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. The City Council serves as the board members for GFFD and the Assistant City Manager is the Executive Director. GFFD is reported as a blended component unit of the non-major enterprise golf fund and the capital project fund.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 of 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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.

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 City considers sales tax revenue to be available if they are collected within 30 days of the end of the current fiscal period and all other revenues available if they are collected within 60 days of the end of the annual fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Grant revenues are recognized as revenues when all eligibility requirements are met.

Property taxes, franchise taxes, licenses, mowing liens, sales taxes, EMS fees, court fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are available as defined above. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

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

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

The Capital Projects Fund accounts for the financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

The City reports the following major proprietary funds:

The Electric Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide electric service for the residents of the City.

The Water Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide water service for the residents of the City.

The Sewer Fund accounts for the resources and expenses associated with the administration, operation, maintenance, new construction, financing and related debt service to provide wastewater treatment service for the residents of the City.

Additionally, the City reports the following fund categories:

Special revenue funds account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes. These specific revenues sources are Community Development Block Grants, Housing Assistance Grants, Neighborhood Services Grants and Funding, Hotel/Motel Tax, Impact Fees, Landfill Closure Funding, Library Grants (NETLS), Police Training, Substandard Perimeter Road Funding, Narcotic Seizure Funding, Other Housing Assistance, Tax Increment funds, and ARRA Recovery Act grants.

The City's nonmajor enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the City is that costs of providing goods and services to the general public on a continuing basis will be financed or recovered through user charges. These funds are the Golf Fund, the Heliport Fund, the Storm Water Management Fund, the Parks Performance Fund, and the Sanitation Fund.

Internal service funds account for group health, self-insurance, long-term disability, fleet services, vehicle replacement, information technology, facilities management, warehouse, and customer services to other departments of the City on a cost reimbursement basis.

The Other Post Employment Benefits trust fund accounts for the activities of the trust fund which accumulates resources for OPEB related benefits, and is excluded from the government-wide financial statements.

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

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer systems. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, liabilities, and net position or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes and the City Council approved investment policy authorize the City to invest in obligations of the Agencies and Instrumentalities of the U.S. Treasury, commercial paper, FDIC insured Certificates of Deposit, repurchase agreements, reverse repurchase agreements, SEC registered no-load money market mutual funds, and investment pools.

The deposits and investments of the OPEB trust fund are held separately from those of other City funds by an outside trustee appointed by the City.

Investments for the primary government, as well as for its component units, are reported at fair value. The Texpool and TexStar investment pools operate in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts for utility billing is estimated based on collection experience. All other allowance for uncollectible accounts is based on accounts outstanding in excess of 360 days of the invoice date and collection experience. The property tax receivable allowance is based on the average collection rate of delinquent taxes over the last five years.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Assessed values are established by the Dallas Central Appraisal District at 100% of estimated market value. Property taxes attach an enforceable lien on property as of January 1. Taxes are due immediately following the October 1 levy date and are considered delinquent after January 31 of the following year. Penalty and interest are charged at 7% on delinquent taxes beginning February 1 and increases each month to 18% on July 1. After all collection efforts have failed, the City files suit to collect the delinquent taxes.

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

3. Inventories and prepaid items

All inventories are valued at average cost and consist of expendable supplies held for consumption or the construction of plant and equipment. Inventories are accounted for under the consumption method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the City's general obligation bonds, certificates of obligation, and revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet or statement of net position because their use is limited by applicable bond covenants or they are maintained in separate bank accounts due to City Charter requirements. The "rate mitigation" account is used to report resources set aside to subsidize potential deficiencies from Electric Fund operations that could adversely affect rates that are charged to customers. The "revenue bond construction" accounts are used to report those proceeds of revenue bond issuances that are restricted for use in construction of assets.

5. 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 and in the proprietary fund financial statements. Capital assets are defined by the City as tangible or intangible assets used in operations with an initial useful life in excess of one year. Capital asset values are established on a department by department basis where the initial asset cost can range between $1,000 and $5,000.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the government chose to include all such items regardless of their acquisition date or amount. As the City constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value for buildings excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond 40 years. The reported value for infrastructure includes all upgrades and is depreciated over a useful life of 15-45 years. In the case of contributed assets, the City values these capital assets at the estimated fair value of the item at the date of its contribution.

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 capital value of the assets constructed. The total interest expense by the City during the current year was $29,495,920. Of this amount, $5,306,805 was included as part of the cost of capital assets under construction in connection with electric, water, and sewer construction projects.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	15 – 40
Improvements other than buildings	5 – 15
Equipment	2 – 10
Systems and Infrastructure	15 – 45

6. Compensated absences

It is the City's policy to permit employees to accumulate earned but unused vacation, compensatory time, and sick pay benefits. Employees are reimbursed upon termination for accumulated vacation and only non-exempt employees are reimbursed for compensatory time. Employees are not reimbursed upon termination for accumulated sick leave except for police and firefighters who are reimbursed up to a maximum of 90 days accumulated sick leave. The liabilities for these amounts are accrued as they are incurred in the government-wide and proprietary fund financial statements.

7. Long-term obligations

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

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

8. Classifications of Fund balance

Fund balances for governmental funds are reported in classifications that demonstrate the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The governmental fund classifications are as follows:

<u>Nonspendable</u> – The portion of fund balance that cannot be spent because it is either (a) not in spendable form, such as inventories and prepaid items, or (b) legally or contractually required to be maintained intact.
<u>Restricted</u> – The portion of fund balance that is restricted for specific purposes due to constraints imposed by creditors, grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
<u>Committed</u> – The portion of fund balance that can only be used for specific purposes imposed by formal action of the City Council. Formal action by the City Council is required to remove the limitations on committed fund balances.
<u>Assigned</u> – The portion of the fund balance that is constrained by the City's intent for specific purposes, but are not restricted or committed. In fund balance policy, the Council delegates authority to the Director of Finance or the Director of Finance's designee to assign amounts for a specific purpose.
<u>Unassigned</u> – The portion of the fund balance that is not restricted, committed, or assigned to specific purposes.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

In order to remain financially strong and provide a framework for prudent financial management, the City maintains a minimum unassigned fund balance goal in the General fund of 30 days of budget-based operating expenditures.

Fund balances for governmental activities as of September 30, 2013 are:

Fund Balance	*General Fund*	*Debt Service*	*Capital Projects*	*Other Nonmajor Governmental Funds*	*Total Governmental Funds*
Nonspendable:					
Prepaids	$ -	$ -	$ -	$ -	$ -
Total Nonspendable	-	-	-	-	-
Restricted:					
General government	1,531,005	-	-	1,465,177	2,996,182
Debt service	-	6,314,007	-	-	6,314,007
Construction	-	-	31,928,448	-	31,928,448
Housing Assistance	-	-	-	1,727,296	1,727,296
Public Safety	-	-	-	935,202	935,202
Total Restricted	1,531,005	6,314,007	31,928,448	4,127,675	43,901,135
Committed:					
General government	-	-	-	444,858	444,858
Culture and recreation	-	-	-	1,934,063	1,934,063
Public works	-	-	-	5,006,527	5,006,527
Total Committed	-	-	-	7,385,448	7,385,448
Assigned:					
General government	4,480,000	-	-	-	4,480,000
Total Assigned	4,480,000	-	-	-	4,480,000
Unassigned	18,252,865	-	-	-	18,252,865
Total fund balance	$ 24,263,870	$ 6,314,007	$ 31,928,448	$ 11,513,123	$ 74,019,448

9. Fund net position

In the fund financial statements, proprietary funds report restricted net position for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

10. ***New accounting principles***

The City implemented the following new GASB standards during the fiscal year ended September 30, 2013:

The GASB has issued Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangement"* ("GASB 60"), which became effective in fiscal year 2013. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The adoption of this statement had no impact on the financial statements.

The GASB has issued Statement No. 61, *"The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34"* ("GASB 61"), which became effective in fiscal year 2013. The objective of this statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, "*The Financial Reporting Entity"*, and the related financial report requirement of Statement No. 34, "*Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments"*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those statements. The City determined that the Garland Health Facilities Development Corporation and the Garland Economic Development Authority, which were discretely presented component units in the City's financial statements in prior years, are no longer necessary to be reported within the City's financial statements and have been excluded from the City's FY2013 Comprehensive Annual Financial Report.

The GASB has issued Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements"* ("GASB 62"), which became effective in fiscal year 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial report guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: (1) Financial Accounting Standards Board (FASB) Statement and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure. The adoption of this statement had no impact on the financial statements.

The GASB has issued Statement No. 63, *"Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position"* ("GASB 63"), which became effective in fiscal year 2013. The requirements of this Statement improves financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The changes related to the adoption of this statement required changing the title of the Statement of Net Assets to the Statement of Net Position. The deferred outflows of resources and deferred inflows of resources are reflected as separate reporting categories on the Statement of Net Position.

GASB issued the following new accounting standards that are expected to be implemented by the City in future years:

The GASB has issued Statement No. 65, *"Items Previously Reported as Assets and Liabilities"* ("GASB 65"), which will be effective in fiscal year 2014. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 66, *"Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62"* ("GASB 66"), which will be effective in fiscal year 2014. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Type Definitions,* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 GASB and AICPA Pronouncements.* The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 67, *"Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25"* ("GASB 67"), which will be effective in fiscal year 2014. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 68, *"Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27"* ("GASB 68"), which will be effective in fiscal year 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 69, *"Government Combinations and Disposals of Government Operations"* ("GASB 69"), which will be effective in fiscal year 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. This statement requires the use of carrying values to measure the assets and liabilities in a government merger. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 70, *"Accounting and Financial Reporting for Nonexchange Financial Guarantees"* ("GASB 70"), which will be effective in fiscal year 2014. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range. The City has not yet evaluated the impact of the implementation of this standard.

The GASB has issued Statement No. 71, *"Pension Transition for Contributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68"* ("GASB 71"), which will be effective in fiscal year 2015. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a statement or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The City has not yet evaluated the impact of the implementation of this standard.

II. Reconciliation of government-wide and fund financial statements

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

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this $242,669,352 difference is as follows:

General Obligation bonds – General Government portion	$201,589,352
Certificates of Obligation – General Government portion	41,080,000
Net adjustment to reduce *fund balance – total governmental funds* to arrive at net position – governmental activities	$242,669,352

The portion of Certificates of Obligation amounting to $30,925,000 and a portion of General Obligation amounting to $910,000 was issued for Internal Service fund projects.

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 balance includes reconciliation between *net changes in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $7,385,714 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds - Governmental Funds	$ (6,650,000)
Issuance of certificate of obligation – Governmental Funds	(10,790,000)
Net premium and issue costs on issuance of CO bonds	(520,000)
Net premium and issue costs on issuance of GO bonds	(382,409)
Principal repayments:	
General obligation debt	14,905,398
Certificates of obligation	2,465,000
Refunded debt on general obligation bonds	7,960,000
Amortization of bond issue costs	1,122,312
Change in landfill closure liability	(598,074)
Change in compensated absences liability	(126,513)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$ 7,385,714

Another element of that reconciliation states that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period." The details of this $8,142,489 difference are as follows:

Capital outlays	$ 18,460,127
Developers contributions	1,531,444
General Fund expense outlays	919,118
Depreciation expense	(28,695,090)
CIP expense outlays	(274,112)
Proceeds from disposal of assets	(528,187)
Gain on disposals of assets	444,211
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net position of governmental activities*	$ (8,142,489)

III. Stewardship, compliance, and accountability

Deficit fund equity

The NETLS Fund deficit of $2,119 will be closed in FY2014.

The Group Health Insurance Fund deficit of $1,358,155 will be eliminated by increasing charges to other operating funds in future years.

The Self-Insurance Fund deficit of $3,475,046 will be eliminated by increasing charges to other operating funds in future years.

The Long-Term Disability Insurance Fund deficit of $2,795,620 is the result of an accrual of claims incurred but not reported of $3,885,997. This accrual was made on the basis of an actuarial analysis completed in 2012. This fund is managed and funded on a cash basis. Therefore, this fund will continue to report a deficit.

The Fleet Fund deficit of $101,387 will be eliminated by increasing charges to other operating funds in future years.

The Facilities Fund deficit of $261,329 will be eliminated by increasing charges to other operating funds in future years.

IV. Detailed notes on all funds

A. Deposits and investments

As of September 30, 2013, the City had the following cash equivalents and investments:

		Investment Maturities (in Years)	
Investment Type	**Fair Value**	**Less than 1**	**1-5**
Federal Home Loan Bank	$ 85,100,808	$ -	$ 85,100,808
Federal National Mortgage Association	49,627,427	5,030,265	44,597,162
Federal Home Loan Mortgage Corp	55,804,911	-	55,804,911
Federal Farm Credit Bank	138,186,850	-	138,186,850
Certificates of Deposit	27,031,055	27,031,055	-
Investment Pools – Texpool	33,338,673	33,338,673	-
Investment Pools – Texstar	14,887,427	14,887,427	-
Money Market Fund	18,465,796	18,465,796	-
Total investment fair value	$ 422,442,947	$ 98,753,216	$ 323,689,731

Investment type. The City invests in federal agency discount-amortizing notes, federal agency coupon securities, managed pool accounts and Certificates of Deposit.

Interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits at least half of the City's investment portfolio to maturities of less than five years and a weighted average maturity of three years or less.

Credit risk. The Texas State Legislature passed the Public Funds Investment Act in 1994. All state and local governments are bound by provisions dictated by the Public Funds Investment Act (Investment Act). The Investment Act governs items such as investment plans, training for investment officers, and the types of investments allowed. The City has developed an Investment Policy which is reviewed and approved through resolution by the City Council which is in compliance with the Investment Act.

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of September 30, 2013, the City held no direct investments in commercial paper. The City's investments in U. S. agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investors Service as of September 30, 2013. Due to the economic collapse and credit crisis, it was announced in August 2008 that US Agency debt would be explicitly backed by the US Treasury. The City's investments in Texpool was rated AAAm by Standard & Poor's. The City's investments in Texstar was rated AAAm by Standard & Poor's.

The City participates in two Local Government Investment Pools: Texpool and Texstar. The State Comptroller oversees Texpool with Federated Investors managing the daily operations of the pools under a contract with the State Comptroller. Although there is no regulatory oversight with Texstar, an advisory board consisting of participants or their designees maintains oversight responsibility for Texstar. JP Morgan Chase and First Southwest Asset Management Inc. manage the daily operations of the pools under a contract with the advisory board.

The City invests in Texpool and Texstar to meet its daily liquidity needs. Texpool and Texstar are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool and Texstar are funds that allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of $1.00, although this cannot be fully guaranteed. Texpool and Texstar are all rated AAAm and must maintain a dollar weighted average maturity not to exceed a 60 day limit. As of September 30, 2013, Texpool and Texstar had a weighted average maturity of 60 days and 51 days respectively. The City considers the holdings in these funds to have a weighted average maturity of one day, due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City invests in Certificates of Deposit. The City has entered into custody services agreements with Stone Castle Cash Management and USA Mutuals to act as authorized agents to purchase and manage Certificates of Deposit (CDs) in depository banks. The CD's held at each bank are in the City's name and the CD cannot exceed the FDIC insurance amount. Money can be withdrawn from Stone Castle Cash Management or USA Mutuals with one day notice. The City considers the holding in these CDs to have a weighted average maturity of one day, due to the fact that these funds can be withdrawn with one day notice.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows the State regulations for collateralization of custodial credit risk. As of September 30, 2013, the carrying amount of the City's deposits was $27,628,977 and the bank balance was $28,156,141. On September 30, 2013, the City's bank balance was fully collateralized. Bank balances for the City's discretely presented component unit (Garland Housing Finance Corporation) were fully collateralized and the carrying value of the component unit's deposits was $42,969.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2013, the City's investments in U. S. agencies are categorized as insured or registered, or securities held by the City or its agent in the City's name.

As of September 30, 2013, the City had the following cash equivalents and investments held by the trust agency Public Agency Retirement Services (PARS) for the OPEB trust fund:

Investment Type	Fair Value
Equity Mutual Funds	$ 358,162
Fixed Income Mutual Funds	375,552
Money Market Fund	28,983
Total investment fair value	$ 762,697

As of September 30, 2013, the Discretely Presented Component Unit of the City had the following cash equivalents:

Garland Housing Finance Corp	Fair Value
Money Market Fund	$542,345

B. Receivables

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

	General	Debt Service	Capital Projects	Electric	Water	Sewer	Other Funds	Total
Receivables:								
Interest	$ 34,623	$ 1,741	$ 37,673	$ 33,933	$ 6,856	$ 14,738	$ 38,730	$ 168,294
Taxes	1,197,948	944,372	-	-	-	-	-	2,142,320
Utility Accounts	218,005	-	-	26,096,613	6,847,715	3,744,360	3,418,469	40,325,162
Mowing Liens	1,127,687	-	-	-	-	-	-	1,127,687
EMS Accounts	6,951,136	-	-	-	-	-	-	6,951,136
Franchise Fee	1,664,596	-	-	-	-	-	-	1,664,596
Sales Tax	3,813,292	-	-	-	-	-	-	3,813,292
Wholesale & Other Accts	2,393,755	-	-	35,922,474	257,504	894,890	4,045,697	43,514,320
Assessments	17,194	-	-	-	-	-	-	17,194
Gross Receivables	17,418,236	946,113	37,673	62,053,020	7,112,075	4,653,988	7,502,896	99,724,001
Less: allowance for uncollectibles	(7,800,550)	(512,346)	-	(1,337,680)	(179,408)	(158,967)	(314,774)	(10,303,725)
Net total receivables	$9,617,686	$ 433,767	$ 37,673	$ 60,715,340	$ 6,932,667	$ 4,495,021	$ 7,188,122	$89,420,276

Governmental funds report *unearned 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 *unavailable revenue* and *unearned revenue* in the governmental funds were as follows:

	Unavailable	Unearned
Delinquent property taxes receivable (general fund)	$ 472,823	$ -
Delinquent property taxes receivable (debt service fund)	372,738	-
Sales tax, mowing liens, EMS, & other receivables (general fund)	3,334,969	-
Parks service charges for future events	-	111,340
Faulkner receivable	-	422,221
Grant drawdowns prior to meeting all eligibility requirements	-	253,220
Homeowner assistance	-	4,138,138
Special assessments prior to meeting all eligibility requirements	-	182,502
	$ 4,180,530	$ 5,107,421

C. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

Primary government

	Balance at Oct. 1, 2012 (1)	Increases	Decreases	Balance at Sept. 30, 2013
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 80,495,198	$ 1,859,858	$ -	$ 82,355,056
Internal service land	-	221,949	-	221,949
Construction in progress	14,431,816	17,847,765	(16,421,903)	15,857,678
Internal service construction in progress	3,273,416	1,471,702	(1,654,684)	3,090,434
Total capital assets, not being depreciated	98,200,430	21,401,274	(18,076,587)	101,525,117
Capital assets, being depreciated:				
Buildings	104,210,008	93,140	-	104,303,148
Improvements other than buildings	437,799,191	7,741,725	-	445,540,916
Machinery and equipment	97,603,393	9,515,992	(6,560,394)	100,558,991
Internal service buildings, improvements, and equipment, as restated in Note S	97,249,170	6,826,448	(9,250,380)	94,825,238
Total capital assets being depreciated	736,861,762	24,177,305	(15,810,774)	745,228,293
Less accumulated depreciation for:				
Buildings	(35,060,733)	(2,711,989)	-	(37,772,722)
Improvements other than buildings	(296,249,136)	(19,083,841)	-	(315,332,977)
Machinery, furniture, and equipment	(73,615,005)	(6,899,260)	6,476,416	(74,037,849)
Internal service buildings, improvements, and equipment, as restated in Note S	(46,170,160)	(7,084,128)	8,862,991	(44,391,297)
Total accumulated depreciation	(451,095,034)	(35,779,218)	15,339,407	(471,534,845)
Total capital assets, being depreciated, net	285,766,728	(11,601,913)	(471,367)	273,693,448
Governmental activities capital assets, net	$ 383,967,158	$ 9,799,361	$ (18,547,954)	$375,218,565

(1) The City restated beginning capital assets. See Note S.

	Balance at Oct. 1, 2012	Increases	Decreases	Balance at Sept. 30, 2013
Business-type activities:				
Capital assets, not being depreciated:				
Land	$ 20,082,357	$ 13,282	$ -	$ 20,095,639
Construction in progress	42,353,304	119,472,606	(45,335,369)	116,490,541
Total capital assets, not being depreciated	62,435,661	119,485,888	(45,335,369)	136,586,180
Capital assets, being depreciated:				
Utility buildings, improvements, and equipment	1,088,114,380	47,049,288	(5,955,136)	1,129,208,532
Total capital assets being depreciated	1,088,114,380	47,049,288	(5,955,136)	1,129,208,532
Less accumulated depreciation for:				
Utility buildings, improvements, and equipment	(455,355,983)	(32,528,341)	4,335,082	(483,549,242)
Total accumulated depreciation	(455,355,983)	(32,528,341)	4,335,082	(483,549,242)
Total capital assets, being depreciated, net	632,758,397	14,520,947	(1,620,054)	645,659,290
Business-type activities capital assets, net	$695,194,058	$134,006,835	$ (46,955,423)	$782,245,470

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

Governmental activities:	
General government	$ 1,040,219
Public safety	3,883,636
Public works	20,097,014
Culture and recreation	3,531,843
Public health	142,378
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of assets	7,084,128
Total depreciation expense – governmental activities	$ 35,779,218

Business-type activities:	
Electric	$ 12,018,431
Water	6,068,923
Sewer	12,237,872
Other non-major business-type activities	2,203,115
Total depreciation expense – business-type activities	$ 32,528,341

The City has identified intangible assets related to right of way easements. These assets have been classified as non-depreciating assets and reported in the same method as land assets.

Construction commitments

The City has active construction projects as of September 30, 2013. At year-end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Water System	13,951,811	588,960
Sewer System	6,599,859	1,229,957
Landfill	1,290,089	1,088,578
Streets and Drainage	656,885	655,568
Buildings	1,227,563	1,753,720
Total	$ 23,726,207	$ 5,316,783

D. Capital Lease

The following is a summary of capital leases of the City for the fiscal year ended September 30, 2013:

	Vehicle Replacement	Total Governmental
Balance at Oct 1, 2012	$ 95,342	$ 95,342
Payments	(30,244)	(30,244)
Balance at Sept 30, 2013	$ 65,098	$ 65,098

The lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of inception. The leased equipment meets the City's capitalization threshold of $5,000 and is included in the capital assets at September 30, 2013. The details of this lease are:

	Governmental activities	Total
Total Cost	$ 151,576	$ 151,576
Less: accumulated depreciation	(75,788)	(75,788)
	$ 75,788	$ 75,788

The following is a schedule of the lease payments required under the capital lease at September 30, 2013:

Fiscal year ending September 30,	Governmental activities	Total
2014	35,010	35,010
2015	35,010	35,010
Total minimum lease payments	70,020	70,020
Less: interest	(4,922)	(4,922)
Present value of minimum lease payments	$ 65,098	$ 65,098

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2013, is as follows:

Interfund Payable	General	Capital Projects	Total
General Fund	$ -	$ 5,118	$ 5,118
Capital Projects	160,820	-	160,820
Electric	-	1,000,000	1,000,000
Non-Major Business-type	1,156,210	-	1,156,210
Internal Service Funds	462,022	-	462,022
Non-Major Governmental	265,776	-	265,776
	$ 2,044,828	$ 1,005,118	$ 3,049,946

Interfund balances are created by short-term deficiencies in cash position in individual funds and it is anticipated that these balances will be repaid within one year or less.

The composition of advances to/from at September 30, 2013, is as follows:

	Advance Receivable	
Advance Payable	Electric	Total
Internal Service	$ 3,896,269	$ 3,896,269
	$ 3,896,269	$ 3,896,269

Advances are created by long-term deficiencies in cash position in individual funds. It is not anticipated that these balances will be repaid within one year or less.

During the year, funds were transferred from one fund to support expenditures of another fund in accordance with the authority established for the individual fund. A summary of interfund transfers by fund type is as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Electric	Nonmajor Governmental Funds	Nonmajor Business-Type Funds	Internal Service Fund	Total Transfers
General Fund	$ -	$ -	$ 1,366,584	$ -	$ 31,007	$ 500,000	$ -	$ 1,897,591
Debt Service Fund	-	-	-	-	-	-	86,444	86,444
Capital Project Fund	3,400,000	-	-	-	-	1,405,000	-	4,805,000
Non-major governmental	-	297,554	-	-	-	-	123,264	420,818
Electric	19,651,897	161,788	1,000,000	-	-	-	845,966	21,659,651
Water	4,863,529	31,113	-	-	-	-	156,099	5,050,741
Sewer	5,580,751	24,891	-	-	-	-	-	5,605,642
Non-major Business-type	842,119	37,336	152,067	-	-	-	596,000	1,627,522
Internal Service	177,670	-	145,994	1,242,049	83,298	-	-	1,649,011
	$34,515,966	$ 552,682	$ 2,664,645	$ 1,242,049	$ 114,305	$ 1,905,000	$ 1,807,773	$ 42,802,420

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations; in-lieu-of franchise fees and ad valorem tax transferred to the general fund by water, wastewater, and solid waste; return on investment transferred to the General Fund from the Electric Fund; debt service transfers for payment of principal and interest as these payments are due; and other miscellaneous transfers in accordance with budgetary authorizations.

F. Long-term liabilities

A summary of long-term liabilities, including current portion, for the year ended September 30, 2013, is as follows:

	Balance at Oct. 1, 2012	Increased	Retired	Balance at Sept. 30, 2013	Due within one year
Governmental activities:					
General obligation bonds	$ 218,769,750	$ 6,670,000	$ (22,940,398)	$ 202,499,352	$ 16,528,094
Certificates of obligation	65,310,000	11,330,000	(4,635,000)	72,005,000	5,745,000
Unamortized premium and defeased debt costs	9,478,478	1,266,436	(1,786,410)	8,958,504	-
Landfill post closure cost	8,162,922	598,074	-	8,760,996	-
Compensated absences	19,383,739	1,688,738	(1,534,153)	19,538,324	7,184,034
Capital lease payable	95,342	-	(30,244)	65,098	31,755
Insurance claims payable	11,450,738	18,554,275	(18,117,015)	11,877,998	4,741,877
OPEB liability	9,012,810	5,452,839	(2,737,386)	11,728,263	2,715,453
Governmental activities Long-term debt	$ 341,663,779	$ 45,560,362	$ (51,780,606)	$ 335,443,535	$ 36,946,213
Business-type activities:					
Utility System revenue bonds	$ 305,640,000	$ 41,715,000	$ (49,715,000)	$ 297,640,000	$ 17,525,000
General obligation bonds	75,000,000	5,610,000	(13,945,000)	66,665,000	8,470,000
Certificates of obligation	130,665,000	1,395,000	(1,240,000)	130,820,000	1,175,000
Unamortized premium and defeased debt costs	24,094,344	1,971,113	(4,663,460)	21,401,997	-
Commercial Paper	10,000,000	80,000,000	(10,000,000)	80,000,000	-
Compensated absences	2,095,984	534,867	(359,671)	2,271,180	1,963,440
Capital lease payable	176,240	-	(176,240)	-	-
OPEB liability	3,249,587	1,936,389	(972,089)	4,213,887	964,300
Business-type activities Long-term debt	$ 550,921,155	$ 133,162,369	$ (81,071,460)	$ 603,012,064	$ 30,097,740

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for those funds are included as part of the above totals for governmental activities. At year-end $910,000 of general obligation bond debt, $30,925,000 of certificates of obligation, $749,877 of compensated absences, and $1,947,001 of OPEB liabilities from the internal service funds are included in the governmental activities general obligation bonds, certificates of obligation, compensated absences and OPEB liabilities. Also, for the governmental activities, compensated absences and OPEB Claims Payable are generally liquidated by the general fund.

The proceeds of $11,330,000 from the sale of certificates of obligation and $6,670,000 of general obligation for governmental activities are reported as follows:

Fund	**Certificates of Obligation**	**General Obligation Bond**	**Total Bonded Debt**
Capital Project Fund – proceeds from issuance of debt	$10,790,000	$ -	$ 10,790,000
Internal Service Fund statement of cash flows – proceeds from sale	540,000	20,000	560,000
Debt Service Fund – issuance of refunding bonds	-	6,650,000	6,650,000
Total	$11,330,000	$ 6,670,000	$ 18,000,000

A summary of short-term debt transactions for the year ended September 30, 2013, is as follows:

	Balance at October 1, 2012	Increased	Retired	Balance at September 30, 2013
Governmental activities:				
Commercial Paper	10,000,000	10,000,000	(10,000,000)	10,000,000
Governmental activities short-term debt	$ 10,000,000	$ 10,000,000	$ (10,000,000)	$ 10,000,000

Long-term debt at September 30, 2013, includes the following individual issues (not including the unamortized discount, premium, and refunding costs of $30,360,502):

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
General obligation bonds:						
2005A Refunding	3.5 – 5.25	4/19/2005	2/15/2020	$ 70,615,000	$ 19,985,000	$ 50,630,000
2005B Refunding	3.00 – 5.25	4/19/2005	2/15/2022	23,675,000	8,340,000	15,335,000
2007A Refunding	4.00 – 5.00	2/15/2007	2/15/2025	67,385,000	7,700,000	59,685,000
2007B Refunding	Variable	2/20/2007	2/15/2025	23,745,000	935,648	22,809,352
2008 Refunding	3.35	4/22/2008	2/15/2019	43,025,000	43,025,000	-
2008A Refunding	4.00 – 5.00	6/15/2008	2/15/2025	57,760,000	10,970,000	46,790,000
2011 Refunding	2.00 -- 5.00	2/01/2011	2/15/2015	10,860,000	5,220,000	5,640,000
2011A Refunding	2.00 -- 4.00	11/01/2011	2/15/2024	17,995,000	3,360,000	14,635,000
2011B Refunding	2.00 -- 5.00	11/01/2011	2/15/2028	41,360,000	-	41,360,000
2013 Refunding	2.00 – 4.00	6/6/2013	2/15/2019	12,280,000	-	12,280,000
				$ 368,700,000	$ 99,535,648	$ 269,164,352

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
Certificates of Obligation:						
1997B Golf course	5.50 – 5.50	8/15/1997	8/15/2027	$ 600,000	$ -	$ 600,000
2005 Various purpose	3.00 – 5.25	4/19/2005	2/15/2025	20,275,000	16,320,000	3,955,000
2006 Various purpose	3.75 – 4.375	3/15/2006	2/15/2026	10,275,000	7,085,000	3,190,000
2007 Various purpose	4.00 – 5.625	5/15/2007	2/15/2022	16,975,000	3,240,000	13,735,000
2008 Various purpose	.3.00 – 4.75	6/15/2008	2/15/2028	15,965,000	5,705,000	10,260,000
2009 Various purpose	.3.00 – 5.25	5/15/2009	2/15/2029	22,985,000	3,385,000	19,600,000
2010 Electric utility	.2.00 – 5.00	3/01/2010	2/15/2030	126,885,000	45,000	126,840,000
2010 Various purpose	.2.00 – 4.50	4/15/2010	2/15/2030	3,205,000	790,000	2,415,000
2011 Various purpose	2.00 – 4.25	6/15/2011	2/15/2031	4,260,000	785,000	3,475,000
2012 Various purpose	2.00 – 3.375	6/01/2012	2/15/2032	6,755,000	725,000	6,030,000
2013 Various purpose	2.00 – 4.00	6/06/2013	2/15/2033	12,725,000	-	12,725,000
				$ 240,905,000	$ 38,080,000	$202,825,000

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Cumulative Retirement	Outstanding
Utility system revenue bonds:						
2004 Water & Sewer	2.00 – 5.00	5/25/2004	3/01/2024	$ 38,485,000	$ 12,510,000	$ 25,975,000
2005 Electric Utility	2.75 – 5.25	4/19/2005	3/01/2025	18,935,000	17,150,000	1,785,000
2005 Water & Sewer	2.75 – 5.25	4/19/2005	3/01/2025	20,545,000	18,610,000	1,935,000
2006 Electric Utility	3.50 – 5.00	3/15/2006	3/01/2026	25,045,000	5,920,000	19,125,000
2006 Water & Sewer	4.00 – 4.50	3/15/2006	3/01/2026	16,180,000	14,585,000	1,595,000
2007 Electric Utility	4.00 – 5.625	5/15/2007	3/01/2027	21,050,000	3,935,000	17,115,000
2007 Water & Sewer	4.00 – 5.625	5/15/2007	3/01/2027	29,070,000	5,365,000	23,705,000
2008 Electric Utility	3.25 – 4.75	6/15/2008	3/01/2028	10,115,000	2,160,000	7,955,000
2008 Water & Sewer	3.00 – 5.00	6/15/2008	3/01/2028	39,900,000	6,730,000	33,170,000
2009 Electric Utility	3.25 – 5.25	5/15/2009	3/01/2029	11,760,000	4,665,000	7,095,000
2009 Water & Sewer	2.00 – 4.75	5/15/2009	3/01/2029	18,090,000	2,635,000	15,455,000
2010 Water & Sewer	2.00 – 4.75	4/15/2010	3/01/2030	21,270,000	1,970,000	19,300,000
2011 Electric Utility	2.00 – 5.00	6/15/2011	3/01/2031	7,185,000	65,000	7,120,000
2011 Water & Sewer	2.00 – 5.00	6/15/2011	3/01/2031	19,205,000	180,000	19,025,000
2011A Electric Utility	3.00 – 5.00	11/01/2011	3/01/2024	20,830,000	1,445,000	19,385,000
2011A Water & Sewer	3.00 – 5.00	11/01/2011	3/01/2024	30,150,000	2,090,000	28,060,000
2012 Water & Sewer	2.00 – 4.00	6/01/2012	3/01/2032	8,415,000	290,000	8,125,000
2013 Electric Utility	2.00 – 2.25	6/06/2013	3/01/2025	11,790,000	-	11,790,000
2013 Water & Sewer	3.00 – 3.375	6/06/2013	3/01/2033	29,925,000	-	29,925,000
				$ 397,945,000	$100,305,000	$297,640,000

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Commercial Paper						
2013 Electric Commercial Paper Issue	0.12	8/27/2013	10/15/2013	30,000,000	-	30,000,000
2013 Electric Commercial Paper Issue	0.13	9/10/2013	12/13/2013	20,000,000	-	20,000,000
2013 Electric Commercial Paper Issue	0.14	9/12/2013	12/10/2013	15,000,000	-	15,000,000
2013 Electric Commercial Paper Issue	0.14	9/12/2013	12/13/2013	15,000,000	-	15,000,000
				$ 80,000,000	$ -	$ 80,000,000

The variable rate General Obligation Bonds, Series 2007B, are subject to an interest rate cap (the cap), which meets the criteria of a cash flow hedge. The objective of the Interest Rate Cap is to provide a ceiling on the cost of funds relating to the City's currently outstanding variable rate General Obligation Refunding Bonds, Taxable Series 2007B.

Terms of the Interest Rate Cap commenced on May 15, 2007, whereby the City is entitled to receive a payment from Bank of America on each February 15, May 15, August 15, and November 15. The amount of any such payment by Bank of America is based on: i) the amount that the LIBOR rate with a stated maturity of three months exceeds 3.80%; and ii) the currently outstanding notional balance of the Cap. The notional amount of the cap at September 30, 2013 was $22,809,352. The Cap is scheduled to terminate on August 15, 2015.

The fair value of the Cap, if it were to be terminated, was a negative $537,499 as of September 30, 2013. Caps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair value was determined based on the dollar offset of future cash flows.

As of September 30, 2013, the City was exposed to credit risk by the amount of the Fair Value of the Cap. The counter party ratings are A2, A, and A by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively.

Under the terms of the Cap agreement, the City has the right to terminate the agreement at any time. In the event that the City should elect to terminate the Cap agreement, the City will receive the Fair Value of the agreement, if such amount is a positive number, or the City will pay the Fair Value of the agreement, if such amount is a negative number. Bank of America does not have the ability to electively terminate the Cap agreement.

As of September 30, 2013, the City would pay Bank of America $537,499 if the City elected to terminate the agreement.

Short-term debt at September 30, 2013, includes the following individual issues:

	Interest Rate (%)	Issue Date	Maturity Date	Original Issue	Net Retirement	Outstanding
Commercial Paper						
2013 GO Commercial Paper Issue	0.14	9/12/2013	12/17/2013	$ 10,000,000	$ -	$ 10,000,000
				$ 10,000,000	$ -	$ 10,000,000

Commercial paper notes (CP) are short-term instruments that have maturities ranging from 1 to 270 days. Interest is paid at maturity but principal is rolled forward by issuing new CP. This process continues, typically for three years, until general obligation bonds (GOs) are issued to refinance outstanding CP. Only after GOs are issued do principal payments begin. The combined amortization of the CP and the GOs is set to not exceed 20 years. Utilization of CP enables the City to lower overall debt payments due to the deferral of principal payments and by taking advantage of lower interest rates. CP is only issued as the funds are required throughout the year. Only projects that have been approved as part of a bond referendum may be funded by CP.

The annual requirements to amortize outstanding debt as of September 30, 2013, including interest payments of $279,729,330 are summarized in the table below. Due to the nature of the obligation for compensated absences, annual requirements to amortize such obligations are not determinable, and have not been included in the following summary:

Governmental Activities

Years Ending September 30,	General Obligation	GO Interest	Certificates Of Obligation	CO Interest
2014	$ 16,528,093	$ 9,015,958	$ 5,745,000	$ 2,886,083
2015	15,210,813	8,292,428	6,210,000	2,608,633
2016	16,675,446	9,923,665	6,010,000	2,381,067
2017	16,290,000	8,980,988	5,485,000	2,152,636
2018	18,695,000	7,988,489	4,570,000	1,942,898
2019-2023	79,440,000	24,683,888	21,100,000	7,226,198
2024-2028	39,660,000	4,491,374	19,670,000	2,852,846
2029-2033	-	-	3,215,000	141,525
Total	$202,499,352	$ 73,376,790	$ 72,005,000	$ 22,191,886

Business-type Activities

Years Ending September 30,	Revenue	Revenue Interest	General Obligation	GO Interest	Certificates Of Obligation	CO Interest
2014	$ 17,525,000	$ 12,057,806	$ 8,470,000	$ 3,065,511	$ 1,175,000	$ 6,358,234
2015	16,760,000	11,370,148	9,620,000	2,662,007	2,315,000	6,287,661
2016	18,155,000	10,689,122	10,020,000	2,211,432	2,260,000	6,194,386
2017	19,340,000	9,988,089	9,300,000	1,724,007	2,140,000	6,118,242
2018	20,055,000	9,243,273	9,385,000	1,247,769	1,970,000	6,058,774
2019-2023	113,270,000	33,032,290	19,870,000	1,313,613	34,565,000	26,863,094
2024-2028	77,480,000	10,743,887	-	-	58,560,000	14,545,368
2029-2033	15,055,000	976,816	-	-	27,835,000	1,409,125
Total	$297,640,000	$ 98,101,431	$ 66,665,000	$ 12,224,339	$130,820,000	$ 73,834,884

At September 30, 2013, the City has authorized but not issued general obligation bonds and general obligation commercial paper in the amount of $135,134,506 as follows:

	Balance at Oct.1, 2012	General Obligation Bonds Issued	GO Commercial Paper Issued	Balance at Sept.30, 2013
Streets Improvements	$ 90,224,506	$ -	$ 3,335,000	$ 86,889,506
Park Improvements	20,240,000	-	1,110,000	19,130,000
Drainage Improvements	15,150,000	-	2,045,000	13,105,000
Municipal Facilities	10,640,000	-	1,315,000	9,325,000
Library Improvements	2,705,000	-	1,895,000	810,000
Public Safety	2,755,000	-	300,000	2,455,000
Economic Development	3,420,000	-	-	3,420,000
	$ 145,134,506	$ -	$ 10,000,000	$ 135,134,506

General Obligation Refunding Bonds do not impact the authorized but not issued General Obligation bonds. The City intends to retire all general long-term debt, plus interest, from ad valorem taxes and other current revenues. Revenue Bonds, applicable Certificates of Obligation and applicable General Obligation Bonds are reflected in the appropriate Proprietary Fund operation. Current requirements for principal and interest expenses are accounted for in the appropriate Proprietary Fund operation.

The City has pledged future Electric, Water and Sewer utility revenues, net of specified operating expenses, to repay $120,301,936 in outstanding Electric Utility Revenue Bonds and $275,439,495 in outstanding Water & Sewer Utility Revenue Bonds. Proceeds from the revenue bonds provided financing for the acquisition and or construction of various Electric, Water and Sewer assets. The bonds are payable solely from Electric, Water and Sewer customer net revenues and are payable through 2033. Principal paid and interest incurred for the current year was as follows:

Utility Revenue Bonds	Principal	Interest	Total	Pledged Revenue
Electric	$ 5,985,000	$ 4,155,808	$ 10,140,808	$ 48,717,637
Water & Sewer	10,365,000	8,631,387	19,036,377	28,570,363

Certificates of Obligation and General Obligation Bonds applicable to Proprietary Fund operations are reflected in the appropriate Enterprise and Internal Service Funds and current requirements for principal and interest expenses are accounted for in the applicable fund. These requirements will be met by current revenues.

Debt issues for the year are as follows:

Issue		Principal	Purpose
Certificates of Obligation, Series 2013	$	12,725,000	Constructing and improving various facilities in the City, improving and equipping the golf course and City Hall, and purchasing equipment for Environmental Waste Services and the street departments, and constructing improvements and purchasing equipment for management information services and fleet services departments.
General Obligation Refunding Bond, Series 2013		12,280,000	Bond refunding
Electric Utility System Revenue Refunding Bond, Series 2013		11,790,000	Bond refunding
Water & Sewer System Revenue Refunding and Improvement Bonds, Series 2013		29,925,000	Bond refunding and system improvements
GO Commercial Paper		10,000,000	Short term debt
Electric Commercial Paper		30,000,000	Long term debt
Electric Commercial Paper		20,000,000	Long term debt
Electric Commercial Paper		30,000,000	Long term debt

On May 7, 2013, the City issued $12,280,000 in General Obligation Refunding Bonds to advance refund $14,415,000 of outstanding General Obligation, series 2008 at the call date. An amount of $14,569,261 was placed with an escrow agent to provide for debt service payments on the old bonds at the call date. The refunded bonds are considered defeased and the liability for those bonds have been removed from the City's financial statements. As a result of the refunding, the City decreased its total debt service payments over the next six years by $851,662 and obtained an economic gain (difference between the present values of the debt service payments of the old and new debt) of $760,416. The refunding resulted in a book loss (difference between amount placed in escrow and carrying amount of debt refunded) of $206,464.

On May 7, 2013, the City issued $11,790,000 in Electric Utility System Revenue Refunding Bond, Series 2011A, to advance refund $11,240,000 of outstanding Electric Utility System Revenue bond, Series 2005 at the call date. An amount of $11,801,285 was placed with an escrow agent to provide for debt service payments on the old bonds at the call date. The refunded bonds are considered defeased and the liability for those bonds have been removed from the City's financial statements. As a result of the refunding, the City decreased its total debt service payments over the next twelve years by $2,228,561 and obtained an economic gain (difference between the present values of the debt service payments of the old and new debt) of $2,018,317. The refunding resulted in a book loss (difference between amount placed in escrow and carrying amount of debt refunded) of $479,240.

On May 7, 2013, the City issued $29,925,000 in Revenue Refunding and Improvement Bonds. The issue included $22,245,000 to advance refund $22,125,000 of outstanding Water and Sewer System Revenue bonds, Series 2005 and 2006, and 7,680,000 for system improvements. An amount of $23,154,163 was placed with an escrow agent to provide for debt service payments on the old bonds at the call date. The refunded bonds are considered defeased and the liability for those bonds have been removed from the City's financial statements. As a result of the refunding, the City decreased its total debt service payments over the next thirteen years by $3,838,439 and obtained an economic gain (difference between the present values of the debt service payments of the old and new debt) of $3,304,033. The refunding resulted in a book loss (difference between amount placed in escrow and carrying amount of debt refunded) of $838,909.

In prior years, the City defeased certain General Obligation Bonds, Certificates of Obligation and Utility System Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At September 30, 2013, $8,540,000 of General Obligation Bonds and $33,365,000 of Utility Revenue Bonds all of which are considered defeased, are still outstanding.

G. Retirement Plans

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. A copy of separately audited financial statements of the plan can be obtained from the TMRS internet site (tmrs.org) or by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas 78714-9153.

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

Members can retire at age 60 and above with five or more years of service or with 20 years of service regardless of age. The plan also provides death and disability benefits. A member is vested after five years, but he/she must leave his/her accumulated contributions in the plan. If a member withdraws his/her own money, he/she is not entitled to the employer-financed monetary credits, even if he/she was vested. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS and within the actuarial constraints also in the statutes.

Contributions

The contribution rate for employees is 7%, and the City matching ratio is currently 2 to 1, both as adopted by the governing body of the City. Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are 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 actuarial liability over the remainder of the plan's amortization period. 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. 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 is the basis for the rate and the calendar year when the rate goes into effect.

The City's required contribution rate for FY13 was decreased from 12.07% in calendar 2012 to 11.70% in 2013.

The City's total payroll in fiscal year 2013 was $150,364,207 and the City's contributions were based on a payroll of $126,390,079. Both the City and the covered employees made the required contributions, amounting to $14,913,038 for the City and $8,847,305 (7 %) for the employees.

A summary of City and employee contributions for the fiscal year ended September 30, 2013, follows:

	Gross	Normal		Unfunded Actuarial Liability		Death and Disability Benefit		Total	Total
	Earnings	Rate	Contribution	Rate	Contribution	Rate	Contribution	Rate	Contribution
City Contribution:									
Months in calendar year 2012	$ 33,891,622	10.25%	$ 3,473,891	1.65%	$ 559,212	0.17%	$ 57,616	12.07%	$ 4,090,719
Months in calendar year 2013	92,498,457	10.43%	9,647,589	1.09%	1,008,233	0.18%	166,497	11.70%	10,822,319
Total Fiscal Year	$126,390,079		$ 13,121,480		$ 1,567,445		$ 224,113		$ 14,913,038
Employee Contribution:									
Months in calendar year 2012	$ 33,891,622	7.00%	$ 2,372,414	-	-	-	-	7.00%	$ 2,372,414
Months in calendar year 2013	92,498,457	7.00%	6,474,892	-	-	-	-	7.00%	6,474,892
Total Fiscal Year	$ 126,390,079		$ 8,847,305		-		-		$ 8,847,305
Total City and Employee Contributions			$21,968,786		$ 1,567,445		$ 224,113		$ 23,760,344

Three Year Trend Information

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$21,097,855	100%	--
2012	$16,792,548	100%	--
2013	$14,913,038	100%	--

Actuarial Assumptions

Actuarial Valuation Date		12/31/2012
Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	24.3 Years - Closed Period
Asset Valuation Method	-	10-year Smoothed Market (to accurately reflect the requirements of GASB stmt., No. 27, paragraphs 36e and 138)
Investment Rate of Return	-	7.0%
Projected Salary Increases	-	Varies by age and service
Includes Inflation At	-	3.0%
Cost-of-living Adjustments	-	None

Schedule of Funding Information

Actuarial valuation date	12/31/2012
Actuarial value of assets	$704,046,535
Actuarial accrued liability (AAL)	$713,843,979
Unfunded actuarial accrued liability (UAAL)	$9,797,444
Funded ratio	98.6%
Annual covered payroll (actuarial)	$124,371,393
UAAL as % of covered payroll	7.9%

See required supplemental information for schedule of funding progress.

H. Other postemployment benefits

Annual OPEB Cost and Net OPEB Obligation

The City provides other postemployment benefits (OPEB) through a single-employer plan and does not issue a publicly available financial report. Retirees are eligible to participate in the City's retiree benefits program if they are a retired employee of the City, had employee medical coverage in the City's group plans for at least five years prior to retirement, and meet the Texas Municipal Retirement System (TMRS) criteria listed on page 70. Dependents are eligible to participate in the City's retiree benefits program if they are enrolled at the time of retirement.

As of September 30, 2013, the City has 184 retirees and 112 retirees and family participating in the health plan out of 1,806 employees eligible to participate upon retirement.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City's annual OPEB cost for the current year and the related information is listed below:

	2011	2012	2013
Annual Required Contribution	$ 5,692,690	$ 7,129,941	$ 7,420,023
Interest on Net OPEB Obligation	343,319	443,802	582,464
Adjustment to Annual Required Contribution	(300,316)	(430,688)	(613,259)
Annual OPEB Cost	5,735,693	7,143,055	7,389,228
Employer contribution to trust fund	-	-	(100,000)
Employer Contributions with interest	(3,620,249)	(4,223,866)	(3,609,475)
Increase in Net OPEB Obligation	2,115,444	2,919,189	3,679,753
Net OPEB Obligation beginning of year	7,227,764	9,343,208	12,262,397
Net OPEB Obligation end of year	9,343,208	$12,262,397	$15,942,150

In addition to the employer contribution, the retirees paid $2,216,266 in the form of premiums which funded current medical claims.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the prior three years (4% discount rate, and level percent of pay amortization)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2011	$ 5,735,693	$ 3,620,249	63.1%	$ 9,343,208
9/30/2012	$ 7,143,055	$ 4,223,866	59.1%	$ 12,262,397
9/30/2013	$ 7,389,228	$ 3,709,475	48.8%	$ 15,942,150

Actuarial Assumptions

Actuarial Valuation Date		10/01/2011
Actuarial Cost Method	-	Projected Unit Credit
Amortization Method	-	Level Percent of Payroll
Remaining Amortization Period	-	26 Years - Closed Period
Investment Rate of Return	-	7.25%
Projected Salary Increases	-	Varies by age and service
Includes Healthcare cost trend at	-	9.5% (the City's portion of the annual increase is expected to be capped at 3%)
Inflation rate	-	3.0%
Cost-of-living Adjustments	-	None

Schedule of Funding Information

Actuarial valuation date	10/01/2011
Actuarial value of assets	$845,836
Actuarial accrued liability (AAL)	$86,815,833
Unfunded actuarial accrued liability (UAAL)	$85,969,997
Funded ratio	1.0%
Annual covered payroll (actuarial)	$129,200,000
UAAL as % of covered payroll	67%

The schedule of funding progress for the OPEB plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. 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 of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

<u>Supplemental Death Benefits Plan (SDBF)</u>

Plan Description: The City participates in the TMRS Supplemental Death Benefits Fund (SDBF), a cost-sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS); this is a separate trust administered by the TMRS Board of Trustees. TMRS issues a publicly available Comprehensive Annual Financial Report (CAFR) that includes financial and supplementary information for the SDBF. That report may be obtained from the TMRS website at www.TMRS.com.

Funding Requirements: The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to SDBF for the years ended September 30, 2013, 2012, and 2011 were $224,113, $231,341, and $273,359 respectively.

I. Self Insurance

Self-insurance for general and auto liability exposure and workers' compensation is maintained in the Self-Insurance Fund of the Internal Service Fund. A private insurance company administers workers' compensation claims and losses for the City. Self-insurance premiums of $5,947,218 were collected from funds that participate in these. Claims settlement and loss expenses are accrued in the Self-Insurance Fund for the estimated settlement value of claims reported and incurred but not reported arising from incidents during the period. A liability, insurance claims payable, has been established. The reported liability includes actuarially determined present value projected losses for general, auto, and workers' compensation exposure. In determining projected losses, coverages with material incurred losses were compared to expected industry loss levels for prior periods. Based on this comparison, an experience modifier was selected and applied to current indicated industry premiums per exposure unit to obtain expected losses as of September 30, 2013, at the selected per occurrence limits. Based on a current independent actuarial analysis completed in December 2012 claims payable as of September 30, 2013 was estimated at $6,721,727.

Long-Term Disability (LTD) claims are paid from the LTD Insurance Fund, which is funded with City and employee contributions. A private company administers the long-term disability claims and losses for the City. Based on a current independent actuarial analysis, an actuarially determined liability of $3,885,997 has been established for projected future claims.

Group medical benefits are paid from the Group Health Fund, which has an annually negotiated stop loss provision. Revenues are recognized from payroll deductions for employee dependent coverage and from City contributions for employee coverage. At September 30, 2013 a short-term liability of $1,280,274 was recognized for open claims and claims incurred but not reported. The claims incurred but not reported are calculated based on a monthly average for claims paid during the current fiscal year.

There were no significant reductions in insurance coverage in the current year from coverage in the prior year, nor have there been any settlements that have exceeded insurance coverage for each of the past three fiscal years.

Changes in the self-insurance, long-term disability and group health insurance claims payable in fiscal years 2012 and 2013 were:

Internal Service Fund	Beginning of Fiscal Year Liability	Current Year Claims	Changes in Estimates	Claim Payments	Balance at Fiscal Year – End	Current Portion
Self Insurance – 2012	$ 6,198,614	$ 2,253,280	$ 523,113	$ 2,253,280	$ 6,721,727	$ 2,954,491
Self Insurance – 2013	6,721,727	2,448,740	-	2,448,740	6,721,727	2,954,491
Long-Term Disability – 2012	3,891,025	414,216	(5,028)	414,216	3,885,997	507,112
Long-Term Disability – 2013	3,885,997	289,793	-	289,793	3,885,997	507,112
Group Health – 2012	3,276,573	12,478,702	(2,433,559)	12,478,702	843,014	843,014
Group Health – 2013	843,014	15,378,482	437,260	15,378,482	1,280,274	1,280,274

J. Texas Municipal Power Agency

The Texas Municipal Power Agency (TMPA) was created in 1975 pursuant to legislation that was passed by the 64th Legislative Session. In 1976, the City along with the cities of Bryan, Denton, and Greenville (collectively “the Cities”) entered into identical Power Sales Contracts with TMPA. Under the Power Sales Contracts each member city is required to purchase all future power and energy requirements in excess of the amounts generated by their systems from TMPA at rates set to cover TMPA’s operating cost and retirement of debt. In the event that revenues are insufficient to cover all costs to retire the outstanding debt, each of the member cities has guaranteed a portion of the unpaid debt based on a percentage, which is determined by each member Cities’ annual net energy load. The City of Garland does not own an equity interest in TMPA.

TMPA, a municipal corporation, is governed by a Board of Directors consisting of eight members. The governing body of each of the four Cities appoints two members to the Board. An affirmative vote of five Directors, plus a weighted majority vote based on the respective energy usage of the Cities, is required for major decisions.

The City pays TMPA a pro-rated monthly charge based on the City’s contractual portion of TMPA’s annual fixed operating costs and debt service payments which is currently 47%. During 2013, the City paid TMPA $56,788,485 for these charges for the year. It is anticipated that the City will pay $53,771,672 for these charges during FY2014.

Total debt of TMPA at September 30, 2013, amounted to $804,343,000 of which $108,566,000 represented the current portion. TMPA's Revenue Bonds are payable from and secured by an irrevocable first lien on the TMPA's net revenues and certain other special funds created in the TMPA's Bond Resolution. The Cities are obligated to guarantee the payment of TMPA's Prior Lien Bonds (the "Debt Service Guarantee").

TMPA
Outstanding Debt Amounts
September 30, 2013
(reported in thousands)

	Long-Term	Current	Total
Revenue Bonds	$ 421,221	$ 33,722	$ 454,943
Zero Coupon Interest Payable	214,821	74,844	289,665
Tax Exempt Commercial Paper	59,735	-	59,735
	$ 695,777	$ 108,566	$ 804,343

On March 1, 2010, the City issued Electric Utility System Revenue Refunding Bonds, Series 2010 with a maturity of 20 years for the purpose of prepaying certain of these contractual obligations to TMPA. The principal amount of the bonds was $126,885,000 with a reoffering premium and other bond issuance costs of $11,777,850 for a total of $138,252,850. Since the proceeds of this debt issuance were placed with TMPA and the City received an economic benefit over a period of years, an Other Asset was recorded in the Electric Fund Statement of Net Position in the amount of $138,252,850. The City is amortizing the Other Asset over a period of 20 years with a half year convention. The City has recorded a total of $24,194,249 of accrued amortization, leaving a balance in the Other Assets account of $114,058,601 at September 30, 2013.

Financial statements for TMPA are available from the TMPA website texasmpa.org or through the City of Garland's Finance Department.

K. Deferred Compensation Plan

The City offers its employees a voluntary deferred compensation plan created in accordance with Internal Revenue Code Section 457. The deferred compensation plan, available to all permanent City employees, permits participants to contribute annually the amount per IRS limitations on a tax-deferred basis to their 457 qualified accounts. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under this plan, all property and rights purchased with those amounts, and all income attributable to these amounts, property, or rights are held in trust for the exclusive benefits of participants and their beneficiaries. Therefore, the Deferred Compensation Investments are no longer reported in the City's financial statements.

L. Conduit Debt Information

The discrete component unit was created to issue revenue bonds to provide financial assistance to qualified homeowners. Even though the bonds are outstanding, there is no liability to the City or the component unit (no commitment debt), as all liability transfers to the trustee of the bond issue. A summary of outstanding conduit bonds at September 30, 2013, is as follows:

Series	Garland Housing Finance Corporation	Total
2000	$ 6,000,000	$ 6,000,000
2005	12,697,922	12,697,922
	$ 18,697,922	$ 18,697,922

M. Business-Type Blended Component Unit

The Garland Foundation for Development (GFFD) was organized to promote economic development within the City of Garland. GFFD is reported as a blended component unit of the non-major enterprise golf fund. A summary of the condensed combining information at September 30, 2013 is as follows:

Golf Fund Condensed
Statement of Net Position

	Golf	GFFD	Eliminating Entries	Total
Current Assets	$ 79,181	$ 72,114	$ (50,465)	$ 100,830
Other Assets	538,562	-	-	538,562
Capital Assets	17,337,284	-	-	17,337,384
Total Assets	17,955,027	72,114	(50,465)	17,976,676
Current Liabilities	1,295,235	109,898	(50,465)	1,354,668
Other Liabilities	240,434	-	-	240,434
Total Liabilities	1,535,669	109,898	(50,465)	1,595,102
Net Investment in Capital Assets	17,875,846	-	-	17,875,846
Unrestricted Net Position	(1,456,488)	(37,784)	-	(1,494,272)
Net Position	$ 16,419,358	$ (37,784)	-	$ 16,381,574

Golf Fund Condensed Statement of
Revenues, expenses, and changes in
Net Position

	Golf	GFFD	Eliminating Entries	Total
Operating Revenues	$ 3,117,825	$ 584,648	$ -	$ 3,702,473
Operating expenses before depreciation	(3,430,210)	(1,403,431)	774,996	(4,058,645)
Depreciation	(747,458)	-	-	(747,458)
Total Operating Loss	(1,059,843)	(818,783)	774,996	(1,103,630)
Loss on disposal of capital assets	(78,750)	-	-	(78,750)
Earnings on investments	1,386	-	-	1,386
Interest expense	(645)	-	-	(645)
Net transfers	1,309,000	774,996	(774,996)	1,309,000
Change in Net Position	171,148	(43,787)	-	127,361
Net Position, beginning of year	16,248,210	6,003	-	16,254,213
Net Position, end of year	$ 16,419,358	$ (37,784)	-	$ 16,381,574

Golf Fund Condensed Statement of Cash Flows

	Golf	GFFD	Eliminating Entries	Total
Net cash provided by (used for) operations	$ (319,646)	$ (759,679)	774,996	$ (304,329)
Net cash provided by noncapital financing activities	1,149,510	795,559	(774,996)	1,170,073
Net cash used for capital and related activities	(930,627)	-	-	(930,627)
Net cash used for investing activities	(18,361)	-	-	(18,361)
Net increase (decrease) in cash and cash equivalents	(119,124)	35,880	-	(83,244)
Cash and cash equivalents at beginning of year	296,328	23,827	-	320,155
Cash and cash equivalents at end of year	$ 177,204	$ 59,707	-	$ 236,911

N. Landfill Closure and Postclosure Care Cost

As of September 30, 2013, the total estimated landfill closure/postclosure cost for the City's Castle Drive landfill, Hinton landfill, and transfer station is $2,729,885, $33,515,648 and $30,927 respectively. The $8,760,996 reported as landfill closure and postclosure care liability represents the cumulative amount reported to date based on the use of 100% of the estimated capacity of the Castle landfill, 18.34% use of the Hinton landfill, 100% of the closure cost for the transfer station, less post closure expenditures to date of $145,796. The City will recognize the remaining estimated closure and postclosure care costs of $27,369,668 as the percentage of capacity depletion increases. These amounts are based on an engineering study performed in 1996 and updated in 2011, which estimated cost to perform all closure and postclosure care. In addition, the closure and postclosure care cost were adjusted for inflation annually based on the most recent Implicit Price Deflator for Gross National Product published by the United States Department of Commerce. Actual cost may differ from the estimate due to inflation, changes in technology, or regulatory changes. The Hinton landfill has an estimated remaining useful life of 49 years.

Since the City's Landfill operation is a general government function, a special revenue fund was established to account for actual landfill closure and postclosure care funding sources and expenditures as they are incurred. Based on the City's current landfill closure financial strategy, $2.4 million in Certificates of Obligation will be issued to finance the one time closure cost and the on-going post closure care will be paid from operating funds.

O. Commitments and Contingent Liabilities

The City has been named as a defendant or co-defendant in a number of personal injury cases. While the outcome of these cases is not known at this time, the City attorney and City management are of the opinion that any awards to injured parties which must be paid in excess of amounts covered by insurance will not be material to the financial position of the City.

A number of other claims against the City, as well as certain other matters of litigation, are pending with respect to various matters arising in the normal course of the City's operations. The City attorney and City management are of the opinion that the settlement of these other claims and pending litigation will not have a material adverse impact on the City's financial position.

The City participates in a number of State and federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement that may arise as the result of these audits is not believed to be material.

On July 9, 1996, the Department Housing and Urban Development (HUD) conveyed title of the Villages of Eastgate apartment complex to the City through a Special Warranty Deed. According to the Deed the City is required to setup and maintain an escrow account (HAPP account) for a period of 20 years from the date of the Deed to account for the sale proceeds of the apartment complex plus earned interest. The funds in the HAPP account are to be used by the City only in the event that HUD is not able to provide housing assistance in the form of Section 8 to the City for the 89 Walker Participants. The HAPP account began the fiscal year with a balance of $571,145, earned interest in the amount of $542, and ended the fiscal year with a balance of $571,687. There were no withdraws from this account during the fiscal year. The fiscal year-end balance of the HAPP account is reported on page 90 of this report as restricted cash and cash equivalents and due to other governments in Nonmajor Governmental Funds Balance Sheet for the Other Housing Assistance Governmental Fund.

Pursuant to Sec.39.904, TEX UTIL. code, the Texas Public Utility Commission (the "PUC") was given the task of developing a plan to construct transmission capacity necessary to deliver to electric customers, in a manner most beneficial and cost-effective to the customers, the electric output from renewable energy technologies in the competitive renewable energy zones. Under this authority, the PUC developed the CREZ Project. In fiscal year 2010, the City entered into an agreement with South Texas Electric Cooperative, Inc. (STEC) for the CREZ Project under which the energy from renewable energy technologies, such as wind generation, will be transmitted within and through competitive renewable energy zones to areas of the state where that energy will be ultimately used by electric customers. Under this agreement, STEC will obtain a certificate of convenience and necessity (CCN) issued by the PUC for construction of the Lines that will be jointly owned by the City and STEC and will require STEC to acquire and build the Lines. The City will pay or reimburse STEC for the acquisition of the CCN and the acquisition and construction of the lines. The CCN and the Lines will be wholly owned by the City by the transfer of ownership from STEC after the Lines achieve commercial operation.

The City executed confirmations during the fiscal year, under its International Swaps and Derivatives Association Inc. (ISDA) Master Agreement to purchase electricity under specific terms and conditions. Management believes the purchase of electricity under the specific terms and conditions of the confirmation were for normal purchases/normal sales and non-speculative in nature.

P. Derivative Instruments

In an effort to mitigate the financial and market risk associated with the purchase of natural gas, energy, and congestion price volatility, the City has established a Risk Management Program. This program was authorized by the City Council and is led by the Risk Oversight Committee. Under this program, the City enters into forward contracts for natural gas and energy for the purpose of reducing exposure to natural gas and energy price risk. Use of these types of instruments for the purpose of reducing exposure to price risk is performed as a hedging activity. These contracts may be settled in cash or delivery of certain commodities. The City typically settles these contracts by delivery of certain commodities.

At September 30, 2013, the City had a net fair market value of $12,644 for fuel swaps that will be settled in subsequent months extending up to October 31, 2013.

At September 30, 2013, the City had seven outstanding contracts with wholesale customers to provide power supply and/or qualified scheduling entity services. The contract terms extend up to December 2018. For the power supply customers, the City charges an energy charge which is based on the quantity of power supplied multiplied by a fixed price, or multiplied by a fixed heat rate and a fuel index price. In order to hedge the City's risk, the City has entered into corresponding power supply agreements with counterparties to hedge against energy price or heat rate fluctuation in the market.

Congestion Revenue Rights

Pre-assigned Congestion Revenue Rights (PCRRs) and Congestion Revenue Rights (CRRs) function as financial hedges against the cost of resolving congestion in the Electric Reliability Council of Texas (ERCOT) market. These instruments allow the City to hedge expected future congestion that may arise during a certain period. CRRs are purchased at auction, annually and monthly at market value. Municipally owned utilities are granted the right to purchase PCRRs annually at 10-20% of the cost of CRRs. At September 30, 2013, the City held CRRs with a cost and fair market value of $2,300,760, that the City expects to use in normal operations, which is recorded as prepaid expense in the Electric fund.

Risks

Credit Risk. The City's over-the-counter agreements for natural gas and energy expose the City to credit risk. In the event of default, the City's operations will not be materially affected. However, the City does not expect the counterparties to fail to meet their obligations. The City maintains contracts with contractual provisions under the ISDA, EEI (Edison Electric Institute), and NAESB (North American Energy Standards Board) agreements. As of September 30, 2013, the City had outstanding forward purchase contracts extending through May 31, 2015 that are expected to be settled through physical delivery.

The City monitors the credit ratings of all of its counterparties to adhere to the City's Risk Management Policy. Any counterparty that does not have at least a BBB- credit rating must be approved by the Risk Oversight Committee.

The congestion revenue rights expose the City to custodial credit risk in the event of default or nonperformance by ERCOT. In the event of default or nonperformance, the City's operations will not be materially affected. However, the City does not expect ERCOT to fail in meeting their obligations as they are a regulatory entity of the State of Texas.

Basis Risk. The City is exposed to basis risk on its fuel hedges because the expected commodity purchases being hedged will price based on a delivery point (WAHA/Katy/HSC) different than that at which the financial hedging contracts are expected to settle NYMEX (Henry Hub).

Termination Risk. Termination risk is the risk that a derivative will terminate prior to its scheduled maturity date due to a contractual event. Contractual events include illegality, tax and credit events upon merger and other events. The City's exposure to termination risk for over-the-counter agreements is minimal due to the high credit rating of the counterparties, and the contractual provisions under the ISDA, EEI, and NAESB agreements applied to these contracts. Termination risk is associated with all of the City's derivatives up to their fair value of the instrument.

Close-out Netting Arrangements. The City enters into close-out netting arrangements whenever it has entered into more than one derivative transaction with a counterparty. Under the terms of these arrangements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and set off the transaction's fair values so that a single sum will be owed by or owed to the non-defaulting party.

Q. GHFC Primrose at Crist Project

On January 17, 2005, GHFC entered into an agreement, to create a partnership to construct and operate a 204-unit rental residential development for seniors to be known as Primrose at Crist located in the City. The original partnership of TX Crist Housing LLP consisted of TX Crist GP LLC, Wachovia Affordable Housing Community Development Corporation a Limited Investment Partner, and TX Crist Development, SLP, L.L.C a Class B Limited Partner. On April 20, 2008 the original partnership agreement was amended to replace TX Crist Development with CAH-IDA Crist Housing as the Class B Limited Partner.

GHFC owns 100% of TX Crist GP LLC, and appoints the president and treasurer (officers) of this limited liability corporation. GHFC issued Conduit Debt amounting to $13,800,000 of variable rate multifamily housing revenue bonds (Primrose at Crist Apartments Project) for the benefit of TX Crist Housing LLP (the bond borrower). GHFC receives an annual issuer fee of 0.01% of the outstanding variable rate multifamily housing revenue bonds that were issued by the bond borrower.

On the closing date of the GHFC Variable Rate Multifamily Housing Revenue Bonds, the land for the project was purchased and titled to GHFC. The land and future improvement have been mortgaged to secure repayment to the lender of the GHFC Multifamily notes. In addition, the land was leased over the next 40 years for $900,000. The remaining unearned revenue as of December 31, 2012, related to this transaction of $725,625 will be amortized over the next 32.5 years as rent revenue.

According to the Primrose at Crist Master Agreement TX Crist GP LLC will receive a developer fee that could amount to $500,000. To date, GHFC has received $332,409 of the $500,000. After the developers' fee is paid, TX Crist GP LLC shall be entitled to receive from net operating cash flow after a $10,000 asset management fee is paid, any tax credit shortfalls are paid, any operating deficit loans are paid, and any subordinated property management fees are paid, a cumulative fee equal to 2% of gross collected rent. The officers of TX Crist GP LLC are required to issue annual dividends to GHFC based on the net revenues and expenses of the limited liability corporation. In addition, TX Crist GP LLC owns 0.01% of TX Crist Housing LLP. This equity ownership amounts to less than $10,000 and is not material to the financial operation of GHFC.

Wachovia Affordable Housing Community Development Corporation owns 99.99% of TX Crist Housing LLP. Neither GHFC nor TX Crist GP LLC exercises any control over TX Crist Housing LLP. TX Crist Housing LLP is the borrower of the $13,800,000 variable rate multifamily housing revenue bonds issued by GHFC. In addition TX Crist Housing LLP is responsible for the apartment management. TX Crist Housing LLP is responsible for paying the developer fees, the 0.01% issuer fee, and the 2% gross collected rent.

The financial statements for TX Crist GP LLC are blended with the GHFC financial statements as a component unit since GHFC exercises significant financial control over TX Crist GP LLC. The financial statements for TX Crist Housing LLP are included with neither TX Crist GP LLC nor GHFC financial statements because neither entity exercises control over TX Crist Housing LLP.

R. GHFC HomeTowne at Garland, LP project

In August 2010, GHFC Garland GP, LLC, a Texas limited liability company, of which GHFC is the sole member entered into a Limited Partnership agreement for the formation of HomeTowne at Garland, LP (the "Partnership"). In August 2011, the Limited Partnership agreement was amended and restated whereby the Partnership would be formed to develop, construct, own, maintain, and operate a 144-unit multifamily residential apartment complex intended for rental to Senior Citizens of low and moderate income, to be known as HomeTowne at Garland, and to be located in Garland, Texas under the terms of the agreement. Under the term of the agreement, the Partnership continues until December 31, 2099 unless the Partnership is sooner dissolved by law.

In August 2011, GHFC entered into an Amended and Restated Ground Lease with the Partnership whereby GHFC leased land to the Partnership for the construction and development of HomeTowne at Garland. GHFC continues to own the land and leases the land to the Partnership over a 75 year period terminating on August 31, 2086.

As of December 31, 2012, GHFC received cash of $500,000 in up front lease payments that GHFC has recorded as deferred revenue. For the three months ended December 31, 2012, GHFC recognized revenue of $3,000 according to the terms of the lease agreement.

S. Beginning Net Position adjustment

During the City's 2013 fiscal year, the City identified and confirmed that assets related to the City's Wireless Communication Network should have been written off in a prior fiscal year. This reporting error resulted in capital assets for the Information Technology Fund and in the Governmental Activities to be overstated by $1,813,249 as of September 30, 2012. This error has been corrected by restating the beginning balance of net position in the 2013 Statement of Net Position.

The following is a reconciliation of beginning net position as originally reported to the restated amount.

	Governmental Activities	Internal Service Funds	Total Primary Government
Net Position, 9/30/12 as previously reported	$ 144,064,130	$ 37,579.297	$ 805,443,772
Restatement adjustment	(1,813,249)	(1,813,249)	(1,813,249)
Net Position, 9/30/12 as restated	$ 142,250,881	$ 35,766,048	$ 803,630,523

T. Subsequent Events

On January 21, 2014, the City issued $18,450,000 in General Obligation Refunding Bonds to refund $19,470,000 of outstanding Certificates of Obligations and General Obligation bonds. These bonds were refunded to lower the overall debt service requirements of the City and to pay the cost associated with the issuance of the Bonds. The transaction was a current refunding of outstanding debt.

<u>APPENDIX C</u>

FORM OF BOND COUNSEL'S OPINION

NORTON ROSE FULBRIGHT

[Closing Date]

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IN REGARD to the authorization and issuance of the "City of Garland, Texas, Electric Utility System Revenue Refunding Bonds, New Series 2015," dated February 1, 2015, in the principal amount of $15,355,000 (the "Bonds"), we have examined into their issuance by the City of Garland, Texas (the "City"), solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of $5,000 or any integral multiple thereof (within a maturity). The Bonds mature on March 1 in each of the years specified in the ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the "Ordinance"), without right of prior redemption. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City and are payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) of the City's electric utility system, such lien and pledge, however, being junior and subordinate to the lien on and pledge of such Net Revenues to the payment and security of the Prior Lien Bonds (identified and defined in the Ordinance), except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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