

OFFICIAL STATEMENT

Dated June 5, 2014

Ratings:

Moody's: "Aa2"

S&P: "AA"

**(See "Other Information
Ratings" herein)**

NEW ISSUE - Book-Entry-Only

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

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

\$10,060,000

CITY OF ODESSA, TEXAS

(Ector and Midland Counties)

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2014

**Dated Date: June 1, 2014
(Interest accrues from Delivery Date)**

Due: As shown on Page 2

PAYMENT TERMS . . . Interest on the \$10,060,000 City of Odessa, Texas, General Obligation Refunding Bonds, Series 2014 (the "Bonds") will accrue from the date of initial delivery to the Underwriter shown below and will be payable March 1 and September 1 of each year commencing September 1, 2014, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly, Texas Government Code, Chapter 1207, as amended, and an ordinance (the "Bond Ordinance") passed by the City Council of the City of Odessa, Texas (the "City"). In the Bond Ordinance, the City Council delegated to the City Manager, pursuant to certain provisions of Chapter 1207, authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the Bonds and the sale are set forth in a pricing certificate, (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance"). The Bonds are direct obligations of the City, payable from a direct and continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law (see "THE BONDS - Authority for Issuance" and "Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to refund a portion of the City's outstanding debt, as more particularly described in "SCHEDULE I - Schedule of Refunded Obligations" attached hereto (collectively, the "Refunded Obligations"), in order to lower the overall debt service requirements of the City, and to pay the costs associated with the issuance of the Bonds.

**CUSIP PREFIX: 676006
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 Underwriter and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani LLP, Bond Counsel, Austin, Texas (see APPENDIX C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright, Counsel for the Underwriter.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on July 15, 2014.

STEPHENS INC.

MATURITY SCHEDULE

Principal Amount	Maturity (3/1)	Interest Rate	Initial Yield	CUSIP ⁽¹⁾	Principal Amount	Maturity (3/1)	Interest Rate	Initial Yield	CUSIP ⁽¹⁾
\$ 155,000	2016	2.000%	0.460%	676006QE2	\$1,095,000	2022	5.000%	2.290%	676006QL6
665,000	2017	2.000%	0.720%	676006QF9	1,175,000	2023	5.000%	2.490%	676006QM4
810,000	2018	4.000%	1.080%	676006QG7	1,210,000	2024	4.000%	2.650%	(2) 676006QN2
860,000	2019	4.000%	1.430%	676006QH5	1,285,000	2025	4.000%	2.850%	(2) 676006QP7
1,010,000	2020	4.000%	1.750%	676006QJ1	745,000	2026	4.000%	2.990%	(2) 676006QQ5
1,050,000	2021	4.000%	2.050%	676006QK8					

(Interest to accrue from the Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, 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. Neither the City, the Financial Advisor, nor the Underwriter take any responsibility for the accuracy of CUSIP numbers.

(2) Yield calculated is based on the assumption that Bonds will be called on the first optional call date at par, March 1, 2023

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

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

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

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

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

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER 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.

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

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

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 STATEMENT.

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The cover page hereof, this page, the Schedule and 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 Odessa (the “City”) is a political subdivision and municipal corporation of the State of Texas (the “State”), located in Ector and Midland Counties. The City covers approximately 36.27 square miles (see “INTRODUCTION - Description of City” and “APPENDIX A – General Information Regarding the City”).

THE BONDS..... The Bonds are issued as \$10,060,000 General Obligation Refunding Bonds, Series 2014. The Bonds are issued as serial bonds maturing on March 1 in the years 2016 through 2026 (see “THE BONDS - Description of the Bonds”).

PAYMENT OF INTEREST Interest on the Bonds accrues from the date of initial delivery and is payable September 1, 2014 and each March 1 and September 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).

AUTHORITY FOR ISSUANCE . The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly, Texas Government Code, Chapter 1207 (“Chapter 1207”), an ordinance (the “Bond Ordinance”) passed by the City Council of the City and a pricing certificate (the “Pricing Certificate”) executed pursuant to the authority delegated to an authorized officer of the City in the Bond Ordinance. The Bond Ordinance and the Pricing Certificate are collectively referred to herein as the “Ordinance” (see “THE BONDS - Authority for Issuance”).

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

REDEMPTION The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2023, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”).

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law the interest on the Bonds is excludable from gross income for federal income tax purposes and the Bonds are not “private activity bonds.” See “TAX MATTERS - Tax Exemption” for a discussion of the opinion of Bond Counsel, including a description of the alternative minimum tax consequences for corporations.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used to refund a portion of the City’s outstanding debt, as more particularly described in “SCHEDULE I – Schedule of Refunded Obligations” attached hereto, in order to lower the overall debt service requirements of the City, and to pay the costs associated with the issuance of the Bonds (see “PLAN OF FINANCING”).

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

BOOK-ENTRY-ONLY

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽³⁾	Per Capita Taxable Assessed Valuation	General Purpose Funded Tax Debt Outstanding at End of Fiscal Year ⁽⁴⁾	Per Capita Funded Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2010	99,940 ⁽²⁾	\$3,878,228,854	\$ 38,806	\$ 34,135,000	\$ 342	0.88%	99.40%
2011	101,459	3,906,950,316	38,508	32,680,000	322	0.84%	99.00%
2012	107,158	4,056,585,367	37,856	31,020,000	289	0.76%	99.20%
2013	107,158	4,488,813,872	41,890	80,670,000	753	1.80%	97.70%
2014	111,270	5,317,028,880	47,785	76,635,000 ⁽⁵⁾	689 ⁽⁵⁾	1.44% ⁽⁵⁾	94.44% ⁽⁶⁾

(1) Source: The City.

(2) U.S. Census Population.

(3) As reported by the Appraisal District (defined herein) on City's annual Reports of Property Value to the State Comptroller of Public Accounts; subject to change during the ensuing year.

(4) Excludes self-supporting debt (see "Table 3B - Derivation of General Purpose Funded Tax Debt").

(5) Projected. Excludes the Refunded Obligations, includes the Bonds.

(6) Collections as of March 31, 2014.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Beginning Balance	\$ 44,590,464	\$ 35,013,921	\$ 27,073,884	\$ 24,365,870	\$ 28,114,272
Total Revenue	74,373,938	69,011,962	61,701,339	55,971,463	53,850,877
Total Expenditures	72,413,629	58,659,044	54,386,043	53,053,233	57,391,768
Net Excess, Transfers & Adjustments	2,026,053	9,576,543	7,940,037	2,708,014	(3,748,402)
Ending Balance	<u>\$ 46,616,517</u>	<u>\$ 44,590,464</u>	<u>\$ 35,013,921</u>	<u>\$ 27,073,884</u>	<u>\$ 24,365,870</u>

For additional information regarding the City, please contact:

Konrad Hildebrandt	George Williford	Erick Macha
Assistant City Manager – Administrative Services	Managing Director	Vice President
City of Odessa	or First Southwest Company	or First Southwest Company
P.O. Box 4398	325 N. St. Paul Street, Ste. 800	325 N. St. Paul Street, Suite 800
Odessa, Texas 79761	Dallas, Texas 75201	Dallas, Texas 75201
(432) 335-3232	(214) 953-8705	(214) 953-4033

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
David Turner Mayor	1 Year	November, 2016	Business Owner
Barbara Graff Mayor Pro-Tem	4 Years	November, 2014	Retired Teacher
Roger McNeil Councilmember	1 Year	November, 2016	Pastor
Dewey Bryant Councilmember	1 Year	November, 2016	CEO of Southwest Bank
Dean Combs Councilmember	8 Years	November, 2014	Chief Financial Officer
Sandra Carrasco Councilmember	3 Years	November, 2014	Office Manager

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Governmental Service</u>
Richard Morton	City Manager	13 Years	26 Years
Konrad Hildebrandt	Asst. City Manager - Administrative Services	Newly Appointed	25 Years
Michael Marrero	Asst. City Manager - Community Services	19 Years	19 Years
Norma Aguilar-Grimaldo	City Secretary	16 Years	23 Years
Felicia Nzere	Director of Finance	15 Years	22 Years

CONSULTANTS AND ADVISORS

Auditors	Weaver and Tidwell, L.L.P. Odessa, Texas
Bond Counsel	Bracewell & Giuliani LLP Austin, Texas
Financial Advisor.....	First Southwest Company Dallas, Texas

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OFFICIAL STATEMENT

RELATING TO

\$10,060,000

CITY OF ODESSA, TEXAS

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2014

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$10,060,000 City of Odessa, Texas, General Obligation Refunding Bonds, Series 2014 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance (the "Bond Ordinance"), adopted by the City Council (the "City Council") of the City of Odessa, Texas (the "City"), and a pricing certificate (the "Pricing Certificate") executed by an authorized officer of the City pursuant to the authority delegated to such authorized officer in the Bond Ordinance. The Bond Ordinance and the Pricing Certificate are referred to herein as the "Ordinance" except as otherwise indicated herein.

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, Dallas, Texas.

DESCRIPTION OF THE CITY . . . The 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 and the City's Home Rule Charter. The City is located in Ector County with a small portion extending into Midland County. The City was incorporated in 1927 and adopted its Home Rule Charter in 1945. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is four years with the terms of the Mayor and two of the Councilmembers' terms expiring in an even numbered year and the terms of the other three Councilmembers expiring in the following even-numbered year. The City Manager is the chief administrative officer for the City. The City provides a full range of municipal services which include police and fire protection, solid waste services, construction and maintenance of streets and infrastructure, planning and zoning, parks and recreation, general administrative services, and utility services, including water and sewer services, and natural gas services. The 2010 Census population for the City was 99,940, and the estimated 2014 population is 111,270. The City covers approximately 36.27 square miles. For additional information regarding the City, see "APPENDIX A - General Information Regarding the City."

PLAN OF FINANCING

PURPOSE . . . The Bonds are being issued for the purpose of refunding a portion of the City's outstanding debt, as more particularly described in "SCHEDULE I – Schedule of Refunded Obligations" attached hereto (collectively, the "Refunded Obligations"), in order to lower the overall annual debt service requirements of the City and to pay the costs of issuance of the Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective redemption dates of such Refunded Obligations, from funds to be deposited pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the City and U.S. Bank National Association, Dallas, Texas (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Obligations.

Grant Thornton, LLP, a nationally recognized accounting firm, will verify at the time of delivery of the Bonds to the Underwriter thereof the mathematical accuracy of the schedules that demonstrate the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations and the computations of yield used to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes. **Such maturing principal of and interest on the Federal Securities will not be available to pay the Bonds** (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have 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 and in reliance upon the report of Grant Thornton, LLP, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Federal Securities and any cash held for such purpose by the

Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes or other revenues nor for the purpose of applying any limitation on the issuance of debt.

USE OF PROCEEDS . . . The proceeds from the sale of the Bonds, together with a contribution of the City to the refunding, will be applied approximately as follows:

Sources of Funds	
Par Amount of the Bonds	\$ 10,060,000.00
Reoffering Premium	1,184,596.70
Transfer from Prior Issue Debt Service Funds	178,255.36
Total Sources of Funds	<u><u>\$ 11,422,852.06</u></u>
Uses of Funds:	
Deposit to Escrow Fund	\$ 11,227,819.57
Cost of Issuance (including Underwriter's Discount)	194,332.74
Deposit to Debt Service Fund	699.75
Total Uses of Funds	<u><u>\$ 11,422,852.06</u></u>

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated June 1, 2014, and mature on March 1 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the date of initial delivery of the Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1, commencing September 1, 2014, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “Book-Entry-Only System” herein.

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 or upon earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “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.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly, Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . Payment of debt service on the Bonds, when due, is secured by a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, sufficient to provide for the payment of principal of and interest on the Bonds.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. Article VI, Section 74 of the Home Rule Charter of the City limits its tax rate to \$2.00 per \$100 Taxable Assessed Valuation for all City purposes. While State law does not provide for any allocation of the City’s tax between debt service and operations, administratively, the Attorney General of the State will permit allocation of approximately two-thirds of the maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based on a 90% collection rate. The City’s 2013/2014 tax rate is \$0.5128 of which \$0.1302 is for debt service purposes.

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 1, 2024, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2023, or any date thereafter, at

the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

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

The City reserves the right to give conditional notice of its election to redeem Bonds pursuant to an optional redemption. Such notice may state that (i) the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) the City retains the right to rescind such notice at any time prior to and including the scheduled redemption date upon delivery of written instructions to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice. Upon such rescission, the notice and redemption shall be of no effect. The Paying Agent/Registrar will give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional notice of redemption where redemption has been rescinded or where the condition to such redemption has not occurred will remain Outstanding, and the rescission of the conditional notice or the failure of any such condition to occur will not constitute an event of default.

DEFEASANCE...The Ordinance provides that the Bonds may be discharged, defeased or refunded in any manner permitted by then applicable law.

Book-Entry-Only System . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

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

Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

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

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

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

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

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

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

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

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

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

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

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the next preceding month.

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

BONDHOLDERS’ REMEDIES . . . The Ordinance establishes specific events of default with respect to the Bonds that each of the following occurrences or events constitute an event of default under the Ordinance: (i) the failure to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the City. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3rd 325 (Tex. 2006) (“*Tooke*”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers

municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

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

TAX INFORMATION

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

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

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

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

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, effective January 1, 2012, surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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

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

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

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

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods in transit.” “Goods in transit” is defined by Section 11.253 of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Section 11.253 of the Tax Code permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

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

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code (“Chapter 380”) to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

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

Under the Property Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. Effective 2005, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

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

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

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

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

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

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CITY APPLICATION OF TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000; the disabled are also granted an exemption of \$5,000.

The City also grants an additional exemption of 20% of the market value of residence homesteads of all taxpayers, with a minimum exemption of \$5,000.

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

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

The City does not tax nonbusiness personal property.

The City has not established a tax freeze for residents 65 years of age or older and the disabled, as may be done on a local option basis.

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

The City does not tax freeport property.

The City has taken action to tax “goods-in-transit.”

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

The City has not established any TIF districts.

The City has entered into two abatement agreements with owners of gas powered power plants, Odessa Ector Power Partners, L.P. (“Odessa Power”) and Navasto Odessa Energy, L.P. (“Navasto Energy”). Pursuant to the agreements, the City granted 100% tax abatements to the owners for the first 8 years of the agreements and, in return, the owners agreed to make payments to the City in lieu of taxes at the end of such 8-year period. The 100% abatement for the agreement with Odessa Power expired in fiscal year 2008 and, accordingly, Odessa Power makes payments in lieu of taxes to the City. The City anticipates that Odessa Power’s payment for fiscal year 2014 will be approximately \$1,291,099. The abatement period under the agreement with Navasto Energy will expire in 2014, at which time Navasto Energy will begin making payments in lieu of taxes.

TAX ABATEMENT POLICY...The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City grants abatements on a case by case basis. The City has entered into several tax abatement agreements, the value of which for the 2013/2014 tax year is shown in “Table 1 - Valuation, Exemptions and General Obligation Debt.”

CHAPTER 380 AGREEMENTS ...The City has entered into two Chapter 380 Agreements. The first is with a retail developer and provides that the grantee may receive 50% of the sales taxes generated by the development so long as certain threshold requirements are met. The maximum amount that the grantee may receive from the City over the life of the agreement is \$5.1 million. As of April 2014, such threshold requirements have not been met and the City has not had to rebate any sales tax revenues. This agreement will expire in 2025. The second is with a multi-use developer and provides that the grantee may receive 50% of the sales taxes generated by the development as well as a grant of 50% of the property tax paid on the development, but only so long as certain threshold requirements are met. The maximum amount that the grantee may receive from the City over the life of the agreement is \$7,942,280. As of April 2014, such threshold requirements have not been met and the City has not had to rebate any sales or property tax revenues. The agreement will expire in 2030.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2013/14 Market Valuation Established by the Appraisal District		\$ 6,883,001,685
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 512,922,275	
Over - 65 Exemption	85,606,721	
Disabled Veterans Exemptions	15,686,588	
Agricultural Land use Reductions	17,437,221	
Disabled Person Exemptions	3,357,023	
Abatements	86,212,002	
Pollution Control	27,673	
Totally Exempt, Prorated Exemptions and Miscellaneous	793,843,262	
Freeport Exemptions	15,155,522	
10% Residential Cap	34,534,751	
Low Income Housing	1,189,767	<u>1,565,972,805</u>
2013/14 Taxable Assessed Valuation		\$ 5,317,028,880
Tax-Supported Debt Payable from Ad Valorem Taxes (as of 5/15/2014)		
Outstanding Debt ⁽¹⁾	\$ 133,805,000	
The Bonds	<u>10,060,000</u>	
Total Funded Debt Payable from Ad Valorem Taxes		\$ 143,865,000
Less: Self-Supporting Debt ⁽²⁾		<u>67,230,000</u>
Net General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 76,635,000
Ratio Funded Debt to Taxable Assessed Valuation		2.71%
Ratio General Purpose Funded Debt to Taxable Assessed Valuation		1.44%

2014 Estimated Population - 111,270
Per Capita Taxable Assessed Valuation - 47,785
Per Capita Total Funded Debt - \$1,293
Per Capita General Purpose Funded Debt - \$689

(1) Projected, excludes the Refunded Obligations.

(2) Ad valorem tax debt that is currently being paid from discretionary transfers from the water and sewer system. In the event the City changes its policy and elects to discontinue such transfers, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service. See "Table 10 – Computation of Self-Supporting Debt."

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2014		2013		2012	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 3,928,797,113	57.08%	\$ 3,563,335,321	59.94%	\$ 3,435,402,902	62.49%
Real, Mission Area	416,799,020	6.06%	300,457,881	5.05%	248,873,491	4.53%
Real, Residential Multi-Family	333,013,915	4.84%	267,884,171	4.51%	197,694,372	3.60%
Real, Vacant Lots/Tracts	49,203,944	0.71%	40,471,747	0.68%	38,031,819	0.69%
Real Acreage (Land Only)	15,117,629	0.22%	22,667,000	0.38%	23,008,896	0.42%
Real, Farm and Ranch Improvements	10,142,362	0.15%	-	0.00%	-	0.00%
Real, Commercial	1,062,691,307	15.44%	884,646,407	14.88%	797,694,170	14.51%
Real, Industrial	59,012	0.00%	59,012	0.00%	59,012	0.00%
Real, Oil, Gas and Other Mineral Reserves	39,356,232	0.57%	56,578,368	0.95%	59,434,079	1.08%
Real and Tangible Personal, Utilities	74,373,818	1.08%	72,898,351	1.23%	70,889,152	1.29%
Tangible Personal, Commercial	916,195,254	13.31%	701,883,268	11.81%	597,940,117	10.88%
Tangible Personal, Industrial	5,168,477	0.08%	5,408,769	0.09%	3,392,256	0.06%
Tangible Personal, Mobile Homes	25,502,531	0.37%	23,423,413	0.39%	20,178,337	0.37%
Real Property, Inventory	6,581,071	0.10%	5,097,803	0.09%	4,876,008	0.09%
Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 6,883,001,685	100.00%	\$ 5,944,811,511	100.00%	\$ 5,497,474,611	100.00%
Less: Total Exemptions/Reductions	(1,565,972,805)		(1,455,997,639)		(1,440,889,244)	
Taxable Assessed Value	<u>\$ 5,317,028,880</u>		<u>\$ 4,488,813,872</u>		<u>\$ 4,056,585,367</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2011		2010	
	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	\$ 3,450,281,745	63.73%	\$ 3,498,728,411	63.23%
Real, Mission Area	230,918,961	4.27%	209,713,696	3.79%
Real, Residential Multi-Family	183,268,794	3.39%	193,606,523	3.50%
Real, Vacant Lots/Tracts	36,727,302	0.68%	40,032,871	0.72%
Real Acreage (Land Only)	22,513,575	0.42%	17,962,289	0.32%
Real, Farm and Ranch Improvements	-	0.00%	-	0.00%
Real, Commercial	779,229,856	14.39%	792,268,502	14.32%
Real, Industrial	58,560	0.00%	58,560	0.00%
Real, Oil, Gas and Other Mineral Reserves	55,716,660	1.03%	71,370,209	1.29%
Real and Tangible Personal, Utilities	72,196,288	1.33%	45,537,754	0.82%
Tangible Personal, Commercial	557,436,896	10.30%	634,740,532	11.47%
Tangible Personal, Industrial	1,576,431	0.03%	5,279,904	0.10%
Tangible Personal, Mobile Homes	18,979,142	0.35%	18,463,718	0.33%
Real Property, Inventory	4,857,982	0.09%	5,549,449	0.10%
Special Inventory	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 5,413,762,192	100.00%	\$ 5,533,312,418	100.00%
Less: Total Exemptions/Reductions	(1,506,811,876)		(1,655,083,564)	
Taxable Assessed Value	<u>\$ 3,906,950,316</u>		<u>\$ 3,878,228,854</u>	

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

TABLE 3A - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	General Purpose Funded Tax Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2010	99,940	\$ 3,878,228,854	\$ 38,806	34,135,000	0.88%	\$ 342
2011	101,459	3,906,950,316	38,508	32,680,000	0.84%	322
2012	107,158	4,056,585,367	37,856	31,020,000	0.76%	289
2013	107,158	4,488,813,872	41,890	80,670,000	1.80%	753
2014	111,270	5,317,028,880	47,785	76,635,000 ⁽⁴⁾	1.44% ⁽⁴⁾	689 ⁽⁴⁾

(1) Source: City of Odessa

(2) As reported by the Appraisal District on City's annual Reports of Property Value to the State Comptroller of Public Accounts; subject to change during the ensuing year.

(3) Excludes self-supporting debt (see "Table 3B - Derivation of General Purpose Funded Tax Debt"). See Tables 1 and 10 herein for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Includes the Bonds but excludes the Refunded Obligations.

TABLE 3B - DERIVATION OF GENERAL PURPOSE FUNDED TAX DEBT

Fiscal Year Ended 9/30	General Obligation Debt Outstanding	Less: Self-Supporting Funded Tax Debt	General Purpose Funded Tax Debt
2010	\$ 113,655,000	\$ 79,520,000	\$ 34,135,000
2011	112,100,000	79,420,000	32,680,000
2012	106,525,000	75,505,000	31,020,000
2013	152,120,000	71,450,000	80,670,000
2014	143,865,000 ⁽¹⁾	67,230,000	76,635,000 ⁽¹⁾

(1) Includes the Bonds but excludes the Refunded Obligations.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2010	\$ 0.5228	\$ 0.4482	\$ 0.0746	\$ 20,280,971	95.80%	99.40%
2011	0.5228	0.4481	0.0746	20,454,919	96.60%	99.00%
2012	0.5228	0.4501	0.0726	21,206,265	97.80%	99.20%
2013	0.5128	0.4481	0.0646	23,026,161	97.70%	97.70%
2014	0.5128	0.3826	0.1302	27,326,183	93.46% ⁽¹⁾	94.44% ⁽¹⁾

(1) Partial year collections as of March 31, 2014.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2013/14 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Odessa Regional Hospital	Hospital	\$ 57,992,455	1.09%
Midland Investors LLC	Realty	49,693,676	0.93%
BJ Services Company USA	Oil & Gas	37,153,004	0.70%
Archer Pressure Pumping LLC	Oil & Gas	34,939,487	0.66%
Oncor Electric Delivery Co.	Utility	33,829,927	0.64%
MCM Properties LTD	Shopping Center	27,115,683	0.51%
Brixmor Winwood Town Center	Shopping Center	22,661,589	0.43%
Faudree LLC	Realty	20,000,000	0.38%
Automotive Rentals Inc.	Auto Rentals	19,979,424	0.38%
Lithia Rea Estate Inc.	Realty	15,315,108	0.29%
		\$ 318,680,353	5.99%

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

TABLE 6 - TAX ADEQUACY⁽¹⁾

Fiscal Year 2014 General Purpose Debt Principal and Interest Requirements ⁽¹⁾	\$ 6,736,346
\$.1334 Tax Rate at 95% Collection Produces	\$ 6,738,271
Maximum Principal and Interest Requirements, General Purpose Debt, Fiscal Year 2019 ⁽¹⁾	\$ 7,254,900
\$.1437 Tax Rate at 95% Collection Produces	\$ 7,258,542
Fiscal Year 2014 General Obligation Debt Principal and Interest Requirements ⁽²⁾	\$ 14,348,196
\$.2841 Tax Rate at 95% Collection Produces	\$ 14,350,395
Maximum Principal and Interest Requirements, General Obligation Debt, Fiscal Year 2015 ⁽²⁾	\$ 14,470,792
\$.2865 Tax Rate at 95% Collection Produces	\$ 14,471,623

(1) Includes the Bonds, excludes the Refunded Obligations and self-supporting debt. See "Table 1 – Valuation, Exemptions and General Obligation Debt."

(2) Includes the Bonds and self-supporting debt, excludes the Refunded Obligations. See "Table 1 – Valuation, Exemptions and General Obligation Debt."

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TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2013/14 Taxable Assessed Value	2013/14 Tax Rate	Total G.O. Tax Debt as of 5/15/2014	Estimated % Applicable	City's Overlapping G.O. Tax Debt as of 5/15/2014	Authorized but Unissued Debt as of 5/15/2014
City of Odessa	\$ 5,317,028,880	\$ 0.5128	\$ 143,865,000 ⁽¹⁾	100.00%	\$ 143,865,000 ⁽¹⁾	\$ -
Ector County	13,772,417,959	0.2973	7,985,000	39.97%	3,191,605	-
Ector Co. ISD	13,401,694,166	1.1610	190,288,720	39.97%	76,058,401	-
Midland County	18,581,217,096	0.1402	19,055,000	2.09%	398,250	770,000
Midland County Hospital District	18,942,741,818	0.1257	106,195,000	2.09%	2,219,476	-
Midland College District	17,876,798,503	0.1332	33,289,052	2.09%	695,741	-
Midland ISD	16,977,225,006	1.1301	28,179,052	2.24%	631,211	-
Odessa Junior College District	13,788,295,102	0.1741	68,470,000	39.97%	27,367,459	-
Total Direct and Overlapping G. O. Tax Debt					\$ 254,427,142	
Ratio of Direct and Overlapping G. O. Tax Debt to Taxable Assessed Valuation					4.79%	
Per Capita Overlapping G.O. Tax Debt					\$ 2,287	

Source: Municipal Advisory Council of Texas.

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

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DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Outstanding Debt	Less: Water and Sewer Self- Supporting Requirements ⁽³⁾	General Purpose Debt (Total Debt Less Self- Supporting Requirements)	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total				
2014	\$ 7,805,000	\$ 6,490,973	\$ 14,295,973	\$ -	\$ 52,223	\$ 52,223	\$ 14,348,196	\$ 7,611,850	\$ 6,736,346	5.15%
2015	7,920,000	6,142,092	14,062,092		408,700	408,700	14,470,792	7,602,638	6,868,155	
2016	7,530,000	5,844,665	13,374,665	155,000	407,150	562,150	13,936,815	6,964,750	6,972,065	
2017	7,375,000	5,540,725	12,915,725	665,000	398,950	1,063,950	13,979,675	6,963,750	7,015,925	
2018	7,760,000	5,213,100	12,973,100	810,000	376,100	1,186,100	14,159,200	6,962,500	7,196,700	26.39%
2019	8,180,000	4,837,575	13,017,575	860,000	342,700	1,202,700	14,220,275	6,965,375	7,254,900	
2020	8,240,000	4,447,675	12,687,675	1,010,000	305,300	1,315,300	14,002,975	6,961,875	7,041,100	
2021	8,680,000	4,044,950	12,724,950	1,050,000	264,100	1,314,100	14,039,050	6,966,375	7,072,675	
2022	8,830,000	3,625,300	12,455,300	1,095,000	215,725	1,310,725	13,766,025	6,963,250	6,802,775	
2023	9,275,000	3,184,650	12,459,650	1,175,000	158,975	1,333,975	13,793,625	6,962,000	6,831,625	58.29%
2024	9,755,000	2,726,762	12,481,762	1,210,000	105,400	1,315,400	13,797,162	6,966,750	6,830,412	
2025	9,315,000	2,271,937	11,586,937	1,285,000	55,500	1,340,500	12,927,437	6,966,750	5,960,687	
2026	9,825,000	1,801,625	11,626,625	745,000	14,900	759,900	12,386,525	6,966,375	5,420,150	
2027	10,395,000	1,296,125	11,691,125			-	11,691,125	6,964,875	4,726,250	
2028	3,035,000	960,375	3,995,375			-	3,995,375	-	3,995,375	88.34%
2029	3,195,000	804,625	3,999,625			-	3,999,625	-	3,999,625	
2030	3,355,000	640,875	3,995,875			-	3,995,875	-	3,995,875	
2031	3,530,000	468,750	3,998,750			-	3,998,750	-	3,998,750	
2032	3,710,000	287,750	3,997,750			-	3,997,750	-	3,997,750	
2033	3,900,000	97,500.00	3,997,500			-	3,997,500	-	3,997,500	100.00%
	<u>\$ 141,610,000</u>	<u>\$ 60,728,031</u>	<u>\$ 202,338,031</u>	<u>\$ 10,060,000</u>	<u>\$ 3,105,723</u>	<u>\$ 13,165,723</u>	<u>\$ 215,503,753</u>	<u>\$ 98,789,113</u>	<u>\$ 116,714,641</u>	

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

(2) Average life of the issue - 7.358 years. The True Interest Cost of the Bonds is 2.506%.

(3) Includes the City's \$62,855,000 Certificates of Obligation, Series 2006, \$6,535,000 General Obligation Bonds, Series 2006 and \$2,060,00 General Obligation Refunding Bonds, Series 2009 that are Self-Supporting Funded Tax Debt.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2014 ⁽¹⁾		\$ 6,736,346
Interest & Sinking Fund Balance, 9/30/2013	\$ 661,216	
Calculated Interest & Sinking Fund Tax Levy, 9/30/2014	6,922,772	<u>\$ 7,583,988</u>
Estimated Balance, 9/30/2014		\$ 847,642

(1) Includes the Bonds, excludes the Refunded Obligations and Self-Supporting Debt.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT

	<u>Waterworks & Sewer System</u>
Net Revenues, Fiscal Year Ended 9/30/2013	\$ 11,724,158
Less: Revenue Bonds Revenue Requirements Fiscal Year 2013/2014	<u>-</u>
Balance Available for Other Purposes	\$ 11,724,158
Less: System General Obligation Debt Requirements, Fiscal Year 2013/2014	<u>7,611,850</u>
Balance	<u><u>\$ 4,112,308</u></u>
Percentage of System General Obligation Debt Self-Supporting	100.00%

NOTE: The City's policy to pay its self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City does not have any authorized but unissued General Obligation Debt.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional General Obligation Debt within the next 12 months.

TABLE 12 - OTHER OBLIGATIONS

The following is a schedule of lease payments required under lease agreements by the City as of Fiscal Year End September 30, 2013.

<u>Fiscal Year Ended September 30,</u>	<u>General Fund</u>
2014	\$ 1,332,730
2015	1,332,730
2016	1,332,729
2017	797,979
2018	797,979
2019	<u>797,979</u>
Total minimum lease payments	<u>\$ 6,392,126</u>

RETIREMENT PLANSTexas Municipal Retirement System

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained on TMRS' website at www.TMRS.com.

In reading this section, investors should be aware that (i) the information included in this Official Statement relating to the TMRS relies on information produced by the TMRS and its independent accountant and actuary, (ii) actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the TMRS and (iii) actuarial assessments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future, and will change with the future experience of the TMRS.

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active members' projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases. The City contributed 98.8%, 94.2% and 80.5% of the annual pension cost for 2013, 2012, and 2011, respectively. The required contribution rates for the fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations.

As of December 31, 2012, the City's actuarial accrued liability was \$191,557,767. As of such date, the City had actuarial value of assets of \$171,061,334, leaving the City with an unfunded actuarial accrued liability of \$20,496,433 and giving the City a "funded ratio" of 89.3%.

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 7, page 62.

Firefighters' Relief and Retirement Fund

The Board of Trustees is the administrator of the Odessa Firefighters' Relief and Retirement Fund (the "Fund"), a single-employer defined benefit pension plan. The Fund is a separate legal entity and issues its own audited financial statements which may be obtained by writing the Fund's Board of Trustees, P.O. Box 4398, Odessa, Texas 79760.

Additionally, the Fund has single entity actuarial valuations performed as of December 31 in even numbered years. The last actuarial valuation report available is for the year ended December 31, 2012. A degree of financial dependence upon the City does exist to the extent the City makes contributions to the Fund equal to a percentage of the participant's pay - 15.15% for 2013 and 15.49% for 2012.

The Fund provides service retirement, death, disability and withdrawal benefits. These benefits become fully vested after 20 years of credited service. Employees may retire at age 50 with 20 years of service. A partially vested benefit is provided for employees who terminate employment with at least 10 but less than 20 years of service. Employees are also eligible for immediate actuarially reduced early retirement benefits upon completion of 20 years of service. The monthly benefit at normal retirement, payable in a joint and 2/3 to spouse form of annuity, is equal to 72% of highest 60-monthly average salary plus \$107 per month for each whole year of service in excess of 20 years.

This plan of benefits, which is described as the "New Plan", became effective October 1, 2000. Firefighters retiring after age 50 with 20 years of service are eligible for a supplemental benefit of \$500 per month for life of member/eligible surviving spouse. Also, a change in the Cost of Living Adjustment ("COLA") was made to increase the COLA to one percent with a minimum of \$37. The plan also provides for an optional "DROP" benefit. A partially vested benefit is provided for employees who terminate employment with at least 10, but less than 20 years of service. These partially vested employees are permitted to draw a reduced, but actuarially equivalent benefit prior to the date the member would have had 20 years of service or the member reached age 50, whichever occurs later.

A member drawing a benefit under this proposal is not eligible for supplemental benefits or for COLA benefits. Employees are also eligible for immediate actuarially reduced early retirement benefits upon completion of 20 years of service. Odessa firefighters are required to contribute 15.00% of their pay to the fund. The City is required to make contributions which will equal the effective matching requirement of TMRS. This rate for 2013 was 15.15% and for 2012 was 15.49%. The benefit and contribution provisions of this plan are authorized by the Texas Local Firefighters Retirement Act.

For more detailed information concerning the Fund, funding policies related thereto and related liabilities, as well as the Fund's historical unfunded actuarial accrued liability, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 7, page 69.

Other Post-Employment Benefits

The City offers postemployment health care and dental benefits (“OPEBs”) to all employees who retire from the City and meet certain age-and service-related requirements. Health care benefits are offered directly by the City. For all retirees except firemen, eligibility for benefits for either option begins upon retirement with 20 years of service or upon retirement at age 60 with at least 5 years of service. For firemen, eligibility for benefits begins upon retirement with 20 years of service at age 50. Medical coverage continues past a members’ age 65, but Medicare becomes primary. Eligible retired employees participating in the OPEB plan pay their premiums directly to the City.

The City’s OPEB Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program, dental benefits, and a preferred care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, City coverage is secondary.

Expenditures for postretirement health care and other benefits are recognized monthly and financed on a pay-as- you go basis. The City funded approximately 40% of the postretirement healthcare and other benefit costs, which totaled \$1,249,693 for fiscal year ended September 30, 2013. The retirees were responsible for funding approximately 60% of the healthcare and other benefit costs. The City accrued an additional \$614,180 in retiree healthcare expenses during fiscal year 2013. As of September 30, 2013, the City’s actuarial accrued liability was \$11,880,732. As of such date, the City had actuarial value of assets of \$0, leaving the City with an unfunded actuarial accrued liability of \$11,880,732 and giving the City a “funded ratio” of 0%.

Annual Required Contribution (ARC) and End of Year Accrual

Unfunded actuarial accrued liability at October 1, 2013	\$11,880,732
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Annual Required Contribution (ARC)

Normal Cost	562,063
Amortization of the unfunded actuarial accrued liability over 30 years	<u>623,008</u>
Annual Required Contribution (ARC)	1,185,071

Annual OPEB Cost (Expenses)

ARC	1,185,071
Interest on beginning of year CAFR accrual	222,572
Amortization of beginning of year CAFR accrual	<u>(378,515)</u>
FY 2011 OPEB cost	1,029,128

End of Year CAFR Accrual (Net OPEB Obligation)

Beginning of year CAFR accrual	7,415,488
Annual OPEB cost	1,029,128
Employer contribution (benefit payments)	<u>(414,948)</u>
End of year CAFR accrual ⁽¹⁾	8,029,668

(1) Actual benefits and administrative fees paid in FY 2013 of \$1,249,693 less participant contributions of \$834,745. Employer contributed 40.3% of annual OPEB cost during FY 2013.

For more detailed information concerning the City’s OPEB plan, funding policies related thereto and related liabilities, as well as the historical unfunded actuarial accrued liability, see Appendix B, “Excerpts from the City’s Comprehensive Annual Financial Report” - Note 7, page 65.

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FINANCIAL INFORMATION

TABLE 13 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

<u>Revenues</u>	Fiscal Year Ended September 30,				
	2013	2012	2011	2010	2009
Property Tax, Penalties and Interest	\$ 20,607,189	\$ 19,036,343	\$ 18,020,264	\$ 17,479,326	\$ 17,048,650
City Sales Tax	31,807,317	28,591,360	23,077,255	18,666,954	18,339,589
Franchise and Gross Receipts	9,833,158	9,923,693	9,033,646	9,215,471	8,914,736
Fines and Forfeitures	2,884,023	3,132,258	3,777,742	3,398,115	2,631,477
Permits and Licenses	1,448,932	1,021,736	525,418	441,524	596,579
Investment Income	106,287	112,766	89,850	98,013	235,684
Industrial Contracts	3,285,615	2,885,016	2,507,876	2,598,135	1,562,380
Other	3,246,586	3,256,171	3,634,285	2,984,056	3,421,910
Intergovernmental Charges	1,154,831	1,052,619	1,035,003	1,089,869	1,099,872
Total Revenues	\$ 74,373,938	\$ 69,011,962	\$ 61,701,339	\$ 55,971,463	\$ 53,850,877
<u>Expenditures</u>					
General Government	\$ 4,614,981	\$ 3,886,153	\$ 3,738,075	\$ 3,766,157	\$ 3,940,662
Finance	1,177,677	503,144	628,198	285,375	457,496
Public Works	10,642,131	9,802,826	8,848,182	8,702,695	10,383,627
Planning and Inspection	943,643	749,346	699,959	697,351	565,315
Public Safety	40,776,428	37,112,744	35,314,684	34,525,067	35,105,421
Culture and Recreation	4,701,794	4,061,969	4,058,604	4,037,893	4,308,614
Debt Service	1,332,730	534,751	534,751	534,751	-
Capital Outlay	8,224,245	2,008,111	563,590	503,944	2,630,633
Total Expenditures	\$ 72,413,629	\$ 58,659,044	\$ 54,386,043	\$ 53,053,233	\$ 57,391,768
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 1,960,309	\$ 10,352,918	\$ 7,315,296	\$ 2,918,230	\$ (3,540,891)
Operating Transfers In	289,718	1,560,469	850,000	-	-
Operating Transfers (Out)	(223,974)	(2,336,844)	(225,259)	(210,216)	(207,511)
Total of Other (Sources) Uses	65,744	(776,375)	624,741	(210,216)	(207,511)
Excess of Revenue and Other					
Sources Over (Under)					
Expenditures and other Uses	\$ 2,026,053	\$ 9,576,543	\$ 7,940,037	\$ 2,708,014	\$ (3,748,402)
Beginning Fund Balance	44,590,464	35,013,921	27,073,884	24,365,870	28,114,272
Ending Fund Balance	<u>\$ 46,616,517</u>	<u>\$ 44,590,464</u>	<u>\$ 35,013,921</u>	<u>\$ 27,073,884</u>	<u>\$ 24,365,870</u>

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TABLE 14 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Voters of the City have also approved the collection of a .25% sales and use tax (the “economic development tax”) in the City for use in economic and community development by the Odessa Development Corporation. Proceeds of the economic development tax are not included in the City's budget and are not pledged to the payment of the Bonds. Collection and enforcement of all sales and use taxes are effected through the offices of the Comptroller of Public Accounts of the State, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City or the Odessa Development Corporation monthly. No sales tax revenue has been pledged to secure payment of the Bonds.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽¹⁾
2010	\$ 18,666,954	\$ 0.9204	\$ 0.4813	\$ 186.78
2011	23,077,255	1.1282	0.5907	227.45
2012	28,591,360	1.3483	0.7048	266.81
2013	31,807,317	1.3814	0.7086	296.83
2014	23,182,615 ⁽²⁾	0.8484	0.4360	208.35

(1) See “Estimated Population” under “Table 3A - Valuation and General Obligation Debt History”.

(2) Partial figures as of May 8, 2014.

The sales tax breakdown for the City is as follows:

Economic and Community Development	0.25 ¢
City Sales & Use Tax	1.00 ¢
State Sales & Use Tax	6.25 ¢
Hospital District	<u>0.75 ¢</u>
Total	8.25 ¢

FINANCIAL POLICIES

Basis of Accounting. . . The City policy is to adhere to generally accepted accounting principles.

Fund Balance Policies. . . The City Council has a long-established fiscal requirement that legally segregates a portion of the General Fund balance for a specific future use. The segregated fund balance should be sufficient to provide financing for 60 days of emergency operation. In 1999, the City Council revised the General Fund Balance Policy to add a reserve for a Budget Stabilization Account. The amount held in reserve is equal to the cost of operating the General Fund for 25 days, based on the previous year’s adopted budget. The reserve account increases/decreases each year in proportion to the General Fund budgeted expenditures. One portion of the Budget Stabilization Account accommodates an approximate 15% sales tax revenue decline, and the remaining balance protects against a 10% decline in property tax revenues or any other revenue loss. Any funds remaining after the 60-day operating requirement and the budget stabilization account have been set aside are classified as undesignated fund balance. These funds are available for Council appropriation for emergency expenditures, one-time capital project expenditures, or any special project that the City Council authorizes.

In 1998, the City Council established a \$1,000,000 reserve for Rate Stabilization for the Water and Sewer Fund to be used for unexpected water revenue fluctuations.

Use of Bond Proceeds, Grants, etc....The City policy is to use bond proceeds, grants or other non-recurring revenues for capital expenditures only. Such revenues are never to be used to fund City operations.

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

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit, (2) direct obligations of the State of Texas or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the 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) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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 City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups and 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 Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period and the ending value 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 15 - CURRENT INVESTMENTS

As of March 31, 2014, the City's investable funds were invested in the following categories:

<u>Type of Investment</u>	<u>Purchase Price</u>	<u>Percentage of Total Investments</u>	<u>Market Value</u>
TexPool	\$ 43,324,271	23.68%	\$ 43,324,271
TexSTAR ⁽¹⁾	37,499,766	20.50%	37,499,766
LOGIC ⁽²⁾	3,747,053	2.05%	3,747,053
Certificates of Deposit	64,487,140	35.25%	64,487,140
Savings/Money Market	33,870,073	18.52%	33,870,073
Total	<u>\$182,928,303</u>	<u>100.00%</u>	<u>\$182,928,303</u>

As of such date, 100% of the City's investment portfolio will mature within 19 months. The market value of the investment portfolio was approximately 100% of its purchase price. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

- (1) TexSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pools. TexSTAR currently maintains a “AAAm” rating from Standard & Poor’s and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds is allowed by the participants.
- (2) Local Government Investment Cooperative (“LOGIC”) is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, provides customer service and marketing for the pool. LOGIC currently maintains a “AAAm” rating from Standard & Poor’s and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants. LOGIC operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940, to the extent such rule is applicable to its operations. Accordingly, LOGIC uses the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. The investment activities of LOGIC are administered by third party advisors. There is no regulatory oversight by the State of Texas over LOGIC.

TAX MATTERS

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

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the initial purchasers of the Bonds with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the initial purchasers of the Bonds, respectively, which Bond Counsel has not independently verified. Bond Counsel will further rely on the report (the “Report”) of Grant Thornton LLP, certified public accountants, regarding the mathematical accuracy of certain computations. If the City should fail to comply with the covenants in the Ordinance or if the foregoing representations or the Report should be determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an “obligated person” with respect to the Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of 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. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2014.

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 United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide notice that audited financial statements are not available and will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City’s current fiscal year end is 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 prior to the next date by which the City otherwise would be required to provide financial information and operating data to the MSRB pursuant to the Ordinance.

NOTICE OF CERTAIN EVENTS . . . The City shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TED) 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; (vii) modifications to the rights of Owners, if material; (viii) bond calls, if material and tender offers; (ix) defeasance; (x) release, substitution, or sale of property securing repayment of the Bonds, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (xiii) 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 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 (xiv) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material.

For these purposes, any event described in the immediately preceding clause (xii) 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.

The City will notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with its agreement by the required time.

AVAILABILITY OF INFORMATION . . . Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole national municipal securities information repository with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made 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. The City will continue to make information filings, including material event notices, with the Texas state information repository (the “SID”) so long as it is required to do so pursuant to the terms of any undertakings made under the Rule prior to the EMMA Effective Date.

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

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last 5 years, the City has complied in all material respects with all continuing disclosure undertakings made by it in accordance with the Rule, except for (i) an underlying rating upgrade resulting from Moody’s recalibration in 2010 which was widely reported and (ii) an underlying rating upgrade from S&P in 2009. The City has subsequently filed notice of such upgrades.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax supported debt of the City are rated “Aa2” by Moody’s, and “AA” by S&P without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the 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 either or both of such ratings, may have an adverse effect on the market price of the Bonds.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

At the time of the initial delivery of the Bonds, the City will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and binding obligation of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding obligations of the City and the interest on such Bonds is excludable from gross income for federal income tax purposes under existing law and the Bonds are not private activity bonds, subject to the matters described under "Tax Matters" herein. A form of such opinion is attached hereto as Appendix C. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "PLAN OF FINANCING" (except under the subcaption "Use of Proceeds"), "THE BONDS" (except for the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaptions "Availability of Information" and "Compliance with Prior Undertakings") and the subcaptions "Legal Investments and Eligibility to Secure Public Funds in Texas", "Registration and Qualification of Bonds for Sale" and "Legal Matters" under the caption "OTHER INFORMATION" and is of the opinion that the information relating to the Bonds and the Ordinance contained therein fairly and accurately describe the provisions thereof. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion 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. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski LLP, Dallas, Texas, a member of Norton Rose Fulbright, Counsel to the Underwriter.

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

FINANCIAL ADVISOR

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

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

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

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

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$64,332.74. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. The City's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

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

statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Bonds approves 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 Underwriter.

David Turner

Mayor
City of Odessa, Texas

ATTEST:

Norma Aguilar-Grimaldo

City Secretary
City of Odessa, Texas

SCHEDULE OF REFUNDED OBLIGATIONS*

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

Original Dated Date	Original Maturity (March 1)	Principal Amount	Interest Rates
August 1, 2005	2016	\$ 170,000	4.150%
	2017	190,000	4.150%
	2018	320,000	4.150%
	2019	350,000	4.150%
	2020	475,000	4.150%
	2021	495,000	4.150%
	2022	515,000	4.200%
	2023	550,000	4.250%
	2024	555,000	4.300%
	2025	605,000	4.350%
		<u>\$ 4,225,000</u>	

The Bonds will be redeemed on March 1, 2015

**Combination Tax and Revenue
Certificates of Obligation, Series 2006**

Original Dated Date	Original Maturity (March 1)	Principal Amount	Interest Rates
July 15, 2006	2017	\$ 500,000	4.250%
	2018	525,000	4.300%
	2019	550,000	4.400%
	2020	580,000	4.450%
	2021	605,000	4.500%
	2022	635,000	4.500%
	2023	670,000	4.600%
	2024	705,000	4.600%
	2025	740,000	4.600%
	2026	775,000	4.625%
		<u>\$ 6,285,000</u>	

The Bonds will be redeemed on March 1, 2016

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION...The City of Odessa (the “City”) is located in the heart of the Permian Basin in Central West Texas and is the County Seat of Ector County. The City is approximately 350 miles west of Dallas and 285 miles east of El Paso.

ECONOMY...The City is located in the heart of the Permian Basin, an area known chiefly for the production of oil and gas. Historically, the principal component of the City’s economic base has been comprised of oil producing, oil well servicing and oil supply companies as well as other oil and gas related businesses. Over 20 percent of the United States’ proven and accessible oil reserves and 15 percent of the natural gas reserves are located in the Permian Basin. Some of the largest oil and gas producers and taxpayers in Odessa include major integrated oil and gas concerns.

The Railroad Commission of Texas reports oil and gas production in Ector County as follows:

Ector County Statewide Onshore Oil & Gas Production Annual Totals, January 2010 to April 2014

<u>Date</u>	<u>Oil (BBL)</u>	<u>Casinghead (MCF)</u>	<u>GW Gas (MCF)</u>	<u>Condensate (BBL)</u>
2010	22,288,763	42,107,146	7,171,988	8,053
2011	23,787,369	47,318,335	6,429,651	19,420
2012	25,783,412	52,884,530	5,497,809	17,317
2013	26,861,670	56,391,765	4,386,593	17,219
2014 ⁽¹⁾	4,170,753	8,724,521	685,448	2,248

Source: Texas Railroad Commission

(1) Data through April 2014

With the City’s dependence upon volatile oil and gas industry, the City continues to strive towards diversification of the local economy. The Texas Almanac designates flourspar, cinnebar, sodium sulfate, sulphur, gypsum, perline, salt, sand and gravel as other nonfuel minerals produced in the Permian Basin.

EDUCATION...Public education is provided by the Ector County Independent School District. The School District includes three high schools, six junior high schools, 26 elementary schools, and three early learning centers. A staff of approximately 3,300 personnel serve an estimated enrollment of 30,857.

There are five institutions of higher education within 60 miles of Odessa: The University of Texas of the Permian Basin, Odessa Junior College, Texas Tech University Health Sciences Center at the Permian Basin, Midland College and Howard College. Since the first classes were offered at the upper-level University in 1973, The University of Texas of the Permian Basin has evolved from a largely commuter campus to one that was granted four-year status in 1991. Filling a niche as the only four-year University for Midland, Odessa and surrounding rural areas, UT - Permian Basin's enrollment is approximately 3,300. The Odessa Junior College campus is spread over 80 acres and includes some 25 buildings and has an enrollment of approximately 4,600. The Texas Tech University Regional Academic Health Center operates a 41,000 square-foot building which includes classrooms, office space, an auditorium and a health sciences library. The University provides for residency training and prepares medical school graduates for certification and practice in primary care disciplines. The residency programs include family practice, pediatrics, obstetrics and gynecology, and internal medicine. The School of Nursing has offered continuing nursing education programs since 1981.

MANUFACTURING AND TRADE...Some of the items manufactured or processed in Odessa include valves, fittings, bearing components, portable rigs, storage tanks, oil field safety equipment, petroleum products, polymers, styrenes, jet fuel, ammonia, oil field chemicals, oil field tools, concrete products, mechanical seals, pillow blocks, pumps, computer terminal components and electronic military components.

CONSTRUCTION PERMITS⁽¹⁾

Calendar Year	Residential		Commercial		Additions and Alterations	Grand Total
	Number of Units	Value	Number of Units	Value		
2010	283	79,024,049	67	66,483,702	16,800,864	162,308,615
2011	299	52,666,472	65	31,884,778	31,855,070	116,406,320
2012	518	160,401,390	188	187,692,400	31,421,035	379,514,825
2013	705	138,167,973	148	399,601,570	20,857,342	558,626,885
2014 ⁽¹⁾	143	33,587,769	276	47,458,153	11,691,063	92,736,985

(1) Source: The City, as of April 30, 2014.

EMPLOYMENT STATISTICS

	Annual Averages				
	2014 ⁽¹⁾	2013	2012	2011	2010
City of Odessa					
Civilian Labor Force	86,057	84,709	83,242	78,655	73,539
Total Employment	83,144	81,308	79,679	74,120	67,826
Unemployment	2,913	3,401	3,563	4,535	5,713
Percent Unemployment	3.4%	4.0%	4.3%	5.8%	7.8%
State of Texas					
Civilian Labor Force	12,902,797	12,819,871	12,626,593	12,496,287	12,287,566
Total Employment	12,201,538	12,007,330	11,762,217	11,506,025	11,280,558
Unemployment	701,259	812,541	864,376	990,262	1,007,008
Percent Unemployment	5.4%	6.3%	6.8%	7.9%	8.2%

Source: Texas Workforce Commission.

(1) As of April, 2014.

POPULATION

	<u>City of Odessa</u>	<u>Ector County</u>
1960 Census	80,338	90,995
1970 Census	85,101	92,660
1980 Census	90,027	115,374
1990 Census	89,699	118,934
2000 Census	90,943	121,123
2010 Census	99,940	137,130
2014 (Estimated)	111,270	149,378 ⁽¹⁾

(1) Census estimate for 2013.

APPENDIX B

EXCERPTS FROM THE
CITY OF ODESSA, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2013

The information contained in this Appendix consists of excerpts from the City of Odessa, Texas Annual Financial Report for the Year Ended September 30, 2013, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Council
Odessa, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Odessa, 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 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.



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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Odessa, Texas as of September 30, 2013 and the respective changes in financial position, and cash flows, where applicable, thereof and the budgetary (GAAP basis) and actual comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in Note 1(R) to the financial statements, in 2013 the City adopted new guidance, GASB Statement No.65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 – 18 and schedule of funding progress on page 89 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, statistical section, and schedules of capital assets used in operation of governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

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

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2014, which is available under a separate cover, on our consideration of City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Odessa, Texas
March 19, 2014

CITY OF ODESSA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of September 30, 2013

As management of the City of Odessa, we offer readers of the City of Odessa's financial statements this narrative overview and analysis of the financial activities of the City of Odessa for the fiscal year ended September 30, 2013. The vision of the government's elected public officials and sound administration of the public's financial resources provide the underlying base for the services provided to the Odessa citizens. Accordingly, we encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-v of this report. All amounts, unless otherwise indicated, are expressed in millions of dollars.

Financial Highlights

- The assets and deferred outflows of resources of the City of Odessa exceeded its liabilities at the close of the most recent fiscal year by \$219.3 million (net position). Of this amount \$62.3 million (unrestricted net position) may be used to meet the government's on-going obligations to citizens and creditors. The government's total net position increased \$31.2 million during the 2013 fiscal year. Accordingly, unrestricted net position increased by \$5.3 million or 9.3%.
- The City of Odessa's governmental funds reported an increase in fund balances of \$58.8 million over the previous year with combined ending fund balances of \$114.4 million as of the close of the current fiscal year. Approximately 25.2%, or \$28.8 million, of this total amount is available for spending at the government's discretion (unassigned fund balances). Within the remaining \$85.6 million, \$661,216 has been restricted for specific debt service requirements, \$66.4 million is restricted or nonspendable, and \$18.5 million is assigned to specific types of expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$28.8 million, or 39.8%, of total general fund expenditures and is available for spending at the government's discretion for any lawful purpose. Along with the thriving local economic impact upon the General Fund, the City continues to benefit from the employment of sound, financial management practices as discussed herein.
- The City of Odessa's capital projects fund balance totaled \$55.3 million and increased significantly by \$53.9 million at the close of the current fiscal year. The City issued certificates of obligation during the year in the amount of \$51,335,000.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Odessa's basic financial statements. The City of Odessa'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 private-sector business.

The Statement of Net Position presents information on all of the City of Odessa's assets, deferred outflows of resources, and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City of Odessa 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 of Odessa 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 of Odessa include general government, finance, public works, planning and inspection, public safety, welfare, and culture and recreation. The business-type activities of the City of Odessa include water and sewer, solid waste, municipal golf course, liquid waste and storm water.

The government-wide financial statements include not only the City of Odessa itself (known as the primary government), but also a legally separate economic development corporation for which the City of Odessa is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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 of Odessa, 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 of Odessa can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Fund Financial Statements (continued)

1. Governmental Funds (continued)

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

The City of Odessa maintains seven individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, And Changes In Fund Balances for the General Fund and the Capital Projects Fund, both of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Odessa adopts an annual appropriated budget for its general fund, the majority of its special revenue funds and its debt service fund. Budgetary comparisons have been provided in this report.

2. Proprietary Funds. The City of Odessa 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 of Odessa uses Enterprise Funds to account for its operations in water and sewer, solid waste, Ratliff golf course, liquid waste and storm water funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City of Odessa's various functions. The City of Odessa uses Internal Service Funds to account for its equipment service, insurance, and information technology funds. The Internal Service Funds predominantly benefit governmental rather than business-type functions and have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for operations in the Water and Sewer Fund and Solid Waste Fund, each of which is considered to be major funds of the City of Odessa.

Fund Financial Statements (continued)

2. Proprietary Funds, (continued)

Although they do not meet the criteria for a major fund, the Ratliff Ranch Golf Course, Liquid Waste and Storm Water Funds are also presented separately because they are believed to be particularly important to financial statement users. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report

3. 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 of Odessa's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes To The Financial Statements

The notes provide additional information that is necessary to acquire to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Odessa's progress in funding its obligation to provide pension benefits and OPEB benefits.

The General Fund budgetary comparison schedule is presented as part of the basic financial statements.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions and OPEB.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Odessa, assets and deferred outflows of resources exceeded liabilities by \$219.3 million at the close of the fiscal year.

By far, the largest portion of the City of Odessa's net position, \$155.3 million, or 70.8%, reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City of Odessa uses these capital assets to provide services to

Government-Wide Financial Analysis (continued)

citizens; consequently, these assets are not available for future spending. Although the City of Odessa'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.

**Table 1
City of Odessa's Net Position
(In Millions)**

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Current & Other Assets	\$ 135	\$ 77	\$ 59	\$ 67	\$ 194	\$ 144
Capital Assets	111	92	119	108	230	200
Total Assets	<u>246</u>	<u>169</u>	<u>178</u>	<u>175</u>	<u>424</u>	<u>344</u>
Deferred Outflows of Resources	-	-	-	-	-	-
Long-Term Liabilities						
Outstanding	103	51	73	77	176	128
Other Liabilities	16	13	13	15	29	28
Total Liabilities	<u>119</u>	<u>64</u>	<u>86</u>	<u>92</u>	<u>205</u>	<u>156</u>
Net Investment in Capital Assets	79	58	76	71	155	129
Restricted	1	1	1	1	2	2
Unrestricted	47	46	15	11	62	57
Total Net Position	<u>\$ 127</u>	<u>\$ 105</u>	<u>\$ 92</u>	<u>\$ 83</u>	<u>\$ 219</u>	<u>\$ 188</u>

An additional portion of the City of Odessa's net position (\$2 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$62 million) may be used to meet the government's ongoing obligations to citizens and creditors.

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

During the current fiscal year, the government's total net position increased by approximately \$31.2 million. Governmental type activities had an increase of \$22.0 million; and the business-type activities had a \$9.2 million increase. The total revenues increased to \$174.0 million, which was 24.4% more than the previous year. Total expenses increased to \$141.5 million, which was an increase of \$15.8 million or 12.6%. The net increase to the government's net position of \$31.2 million was \$17.1 million more than the previous year's amount of \$14.1 million.

Government-Wide Financial Analysis (continued)

Table 2
City of Odessa's Changes in Net Position
(In Thousands)

	Governmental Activites		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Program Revenues:						
Charges for Services	\$ 9,032	\$ 8,663	\$ 61,244	\$ 50,270	\$ 70,276	\$ 58,933
Operating Grants						
Contributions	9,770	5,297	-	-	9,770	5,297
Capital Grants & Contributions	12,036	2,368	7,723	4,376	19,759	6,744
General Revenues:						
Property Taxes	23,499	21,670	-	-	23,499	21,670
Sales Taxes	31,807	28,591	-	-	31,807	28,591
Other Taxes	15,215	15,168	-	-	15,215	15,168
Other Revenues	3,530	3,269	103	157	3,633	3,426
Total Revenues	104,889	85,026	69,070	54,803	173,959	139,829
General Government	4,957	4,280	-	-	4,957	4,280
Finance	1,505	985	-	-	1,505	985
Public Works	20,508	14,805	-	-	20,508	14,805
Planning & Inspection	852	785	-	-	852	785
Public Safety	42,924	39,051	-	-	42,924	39,051
Welfare	1,344	1,106	-	-	1,344	1,106
Culture & Recreation	8,147	7,040	-	-	8,147	7,040
Interest on Long-Term Debt	2,001	1,607	-	-	2,001	1,607
Water & Sewer	-	-	46,220	43,282	46,220	43,282
Solid Waste	-	-	10,568	10,496	10,568	10,496
Ratliff Golf Course	-	-	1,718	1,679	1,718	1,679
Liquid Waste	-	-	11	13	11	13
Storm Water	-	-	714	559	714	559
Total Expenses	82,238	69,659	59,231	56,029	141,469	125,688
Increase(Decrease) in Net Position Before Transfers	22,651	15,367	9,839	(1,226)	32,490	14,141
Transfers	(200)	(2,305)	200	2,305	-	-
Increase in Net Position	22,451	13,062	10,039	1,079	32,490	14,141
Net Position-Beginning, as previously reported	104,943	91,881	83,105	82,026	188,048	173,907
Prior Period Adjustment	(477)	-	(786)	-	(1,263)	-
Net Position-Beginning, as restated	104,466	91,881	82,319	82,026	186,785	173,907
Net Position-Ending	\$ 126,917	\$ 104,943	\$ 92,358	\$ 83,105	\$ 219,275	\$ 188,048

Governmental Activities

Table 3
City of Odessa's General Revenues and Transfers
(In Thousands)

	<u>2013</u>	<u>2012</u>	<u>Variance</u>
Property Tax, Penalties and Interest	\$ 23,499	\$ 21,670	\$ 1,829
Sales Taxes	31,807	28,591	3,216
Franchise & Gross Receipts	9,833	9,924	(91)
Hotel-Motel Taxes	5,382	5,244	138
Industrial Taxes	3,286	2,885	401
Unrestricted Investment Income/Misc.	244	384	(140)
Transfers	(200)	(2,305)	2,105
Total General Revenues and Transfers	<u>\$ 73,851</u>	<u>\$ 66,393</u>	<u>\$ 7,458</u>

The City of Odessa's general revenues and transfers provided \$73.9 million to fund the costs associated with those activities that are not self-supporting. It is anticipated that governmental activities will not be self-supporting and will be paid for through general revenues.

Program revenues for governmental activities were \$30.8 million and were used to pay expenses associated with governmental activities of \$82.2 million.

The primary sources of revenue for governmental activities are property taxes, sales taxes, franchise and gross receipts, charges for services from public safety, and hotel - motel taxes. During fiscal year 2013, property taxes generated \$23.5 million and reflected an increase of \$1.8 million over the previous year. Property tax collections were derived from growth in the property tax base that increased to \$4.5 billion during the year and was combined with a property tax rate of \$0.51275 per hundred dollars valuation, a decreased rate from the previous year. Sales taxes revenues generated \$31.8 million, which was more than budget by approximately \$6.6 million. Franchise and gross receipts taxes contributed \$9.8 million to operations, which was a decrease from last year by \$91 thousand. The total charges for services came in at \$9.0 million with the majority coming from public safety in the amount of \$7.1 million. Hotel-motel taxes income provided an additional \$5.4 million, which is an increase over the prior year of \$.2 million.

The most significant expenses of governmental activities are those associated with providing public safety (police, fire and public safety communications), public works (engineering, streets and traffic) culture and recreation (parks, recreation opportunities and aquatic facilities) and the related support functions necessary to provide these services. Public safety expenses of \$42.9 million represents 52.2% of all combined governmental activities expenses.

Business-Type Activities

Net position from business-type activities totaled \$92.4 million at the close of the fiscal year and reflected a 11.2% increase from the prior year. Revenues of business-type activities contributed \$69.1 million to the operations of the City of Odessa. Expenses associated with these activities totaled \$59.2 million. This resulted in an increase to the City's net position of \$9.3 million from business-type activities.

The major components of the revenue stream for business-type activities represent Water and Sewer revenues of \$48.4 million and Solid Waste revenues of \$10.6 million. Investment earnings were lower in the current fiscal year, and represented only \$0.1 million of the revenue component of business-type activities for the City of Odessa. Meanwhile, grants and contributions revenues totaled \$7.7 million as compared to \$4.4 million during the prior year. The Ratliff Golf Course depicted revenues of \$1.4 million.

Water and Sewer had \$46.2 million in expenses coupled with a positive position of \$9.8 million net revenues over expenses for the current fiscal year end. Solid Waste expenses were \$10.6 million and resulted in an excess of revenues over expenses totaling \$71,577. The Ratliff Ranch Golf Course had expenses of \$1.7 million, a transfer in of \$0.2 million and resulted in a deficit of revenues over expenses totaling \$(50,349).

Financial Analysis of the Government's Funds

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

1. **Governmental Funds**

The focus of the City of Odessa's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Odessa's financing requirements. In particular, unassigned fund balance serves as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2013, the City of Odessa's governmental funds reported combined ending fund balance of \$114.4 million, an increase of \$58.8 million in comparison with the prior year. Approximately 25.5% of this total amount, \$28.8 million, constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is either restricted, committed or assigned to indicate that it is not available for new spending.

The General Fund is the chief operating fund of the City of Odessa. At the end of the current year, unassigned fund balance of the General Fund was \$28.8 million, while total fund balance reached \$46.6 million. Within the General Fund's unassigned fund balance, the City maintains a 60-day contingency balance of \$12,186,079 and a 25-day budget stabilization balance of \$5,077,533. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

Financial Analysis of the Government's Funds (continued)

1. Governmental Funds (continued)

Unassigned fund balance represents 39.8% of total General Fund expenditures, while total fund balance represents 64.4% of that same amount. Fund balance of the City's General Fund increased by \$2.0 million during the current fiscal year. Some reasons for the increase are apparent in the performance of both General Fund revenues and expenditures, including increased sales tax revenues and property tax revenue and monies not spent in the capital outlay area.

The Capital Projects Fund has a total fund balance of \$55.5 million. Of that amount \$54.6 million is restricted for capital outlay and construction; and \$0.7 million is reported as assigned. The net increase in fund balance during the current year for the Capital Projects Fund was \$53.9 million, due to the issuance of certificates of obligation in the amount of \$51.3 million to be used for improvements to parks, streets, drainage, curbs and gutters.

2. Proprietary Funds

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

The net position of the Water and Sewer Fund at the end of the year amounted to \$82.6 million. The total change in net position was an increase of \$8.5 million. Major factors impacting this change include operating income of \$5.0 million, \$7.7 million in capital contributions, and \$(3.5) million in interest expense. Operating income was \$7.5 million higher in 2013 than it was in 2012. This increase is attributable to a significant water rate increase that went into effect at the beginning of the fiscal year.

Unrestricted net position of the Solid Waste Fund at the end of the year totaled \$610,331. The change in net position from the previous fiscal year was a \$52,677 increase.

Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Odessa's business-type activities.

General Fund Budgetary Highlights

At the beginning of the fiscal year, a balanced budget for the General Fund was adopted. The City had no changes in budgeted revenues for the year. Actual revenues exceeded the final revenue budget by \$8.6 million during the fiscal year as depicted below.

General Fund Budgetary Highlights (continued)

	Final Budget	Actual	Variance Over (Under)
Property Tax, Penalties & Interest	\$ 20,112,788	\$ 20,607,189	\$ 494,401
City Sales Tax	25,240,023	31,807,317	6,567,294
Franchise & Gross Receipts	9,219,360	9,833,158	613,798
Fines & Forfeitures	3,294,600	2,884,023	(410,577)
Permits & Licenses	491,000	1,448,932	957,932
Investment Income	100,000	106,287	6,287
Industrial Contracts	2,706,000	3,285,615	579,615
Other	3,552,900	3,246,586	(306,314)
Intergovernmental	1,046,847	1,154,831	107,984
Total Revenues	\$ 65,763,518	\$ 74,373,938	\$ 8,610,420

City sales tax made up 76% of this favorable variance as the economy in Odessa continues to thrive. Property tax, gross receipts tax and building permits all showed favorable variances, again due to increased businesses, buildings, and commercial sales in our current local economy.

Differences between the original budget and the final amended budget resulted in an increase in appropriations of \$24,450,734 and can be briefly summarized, in thousands of dollars, as follows:

- \$ 158 increase in general government activities
- \$ 1,391 increase in finances service activities
- \$ 194 increase in public works activities
- \$ 937 increase in public safety activities
- \$ 20 increase in planning and inspection activities
- \$ 167 increase in culture and recreation activities
- \$ 21,613 increase in capital outlays

Approximately \$16.7 million of this increase relates to encumbrances and obligated projects carryover, \$6.5 million is attributable to one-time supplemental requests approved by the governing body during the fiscal year, and \$1.2 million was approved as an increase in longevity pay.

With the adjustments made during fiscal year 2013, the actual expenditures were \$72.4 million as compared to the final budget amount of \$89.9 million causing a positive variance of \$17.5 million. The majority of this variance (93.2%) is in the area of capital outlay expenditures. Many of the one-time supplemental requests in capital outlay were not spent by fiscal year end causing budget to significantly exceed actual expenditures. In addition, some of the obligated projects carried over into 2013 did not get completed. This positive variance is offset by the assigned balances at the end of the fiscal year.

Capital Assets and Debt Administration

Capital Assets

The City of Odessa's investment in capital assets for its governmental and business type activities as of September 30, 2013, amounts to \$229.4 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, furniture and office equipment, data processing equipment, automotive equipment, and radio and communication equipment.

Construction in progress as of September 30, 2013 was \$4.2 million in the governmental activities and \$7.4 million in the business type activities for a total of \$11.6 million. Additional information on the City of Odessa's capital assets can be found in Note 6 of this report.

Table 4
Capital Assets as of September 30, 2013
(Net of Depreciation, in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Land	\$ 22,797	\$ 20,185	\$ 458	\$ 458	\$ 23,255	\$ 20,643
Buildings	10,441	10,929	3,673	3,932	14,114	14,861
Improvements other than Buildings	23,735	23,541	30,280	28,992	54,015	52,533
Infrastructure	34,889	24,647	76,466	56,973	111,355	81,620
Furniture & Office Equipment	64	42	2	3	66	45
Machinery & Equipment	1,076	1,162	345	368	1,421	1,530
Data Processing Equipment	778	272	8	28	786	300
Automotive Equipment	11,526	8,202	-	-	11,526	8,202
Radio & Communications Equipment	1,279	1,432	-	-	1,279	1,432
Construction in Progress	4,184	1,130	7,373	16,917	11,557	18,047
Totals	<u>\$ 110,769</u>	<u>\$ 91,542</u>	<u>\$ 118,605</u>	<u>\$ 107,671</u>	<u>\$ 229,374</u>	<u>\$ 199,213</u>

The following major capital projects were completed during fiscal year 2013:

Governmental Projects

Floyd Gwin Park Renovations
' Sherwood Park Renovations
' Sections of the East Drainage
Street Reconstruction
Overwidth Paving
Water well for Parks

Water and Sewer Projects

Water Meter Replacements
Water Line Replacements
Sewer Line Replacements
Water Tower Rehab

Capital Assets and Debt Administration (continued)

Long Term Debt

At the end of the current fiscal year, the City of Odessa had total debt outstanding of \$152.1 million. Of this amount, \$80.7 million is governmental-type tax supported debt. Water and Sewer system revenues support \$71.4 million of business-type activity debt.

Table 5
Outstanding Debt, at Year-End
(in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Certificates of Obligation Serviced	\$ 67,690	\$ 17,055	\$ 62,855	\$ 62,855	\$ 130,545	\$ 79,910
Refunding General Obligations Serviced	12,980	13,965	8,595	12,650	21,575	26,615
Totals	<u>\$ 80,670</u>	<u>\$ 31,020</u>	<u>\$ 71,450</u>	<u>\$ 75,505</u>	<u>\$ 152,120</u>	<u>\$ 106,525</u>

The City of Odessa's total bonded debt increased \$45.6 million during the current fiscal year. Debt serviced by governmental type activities increased by \$49.7 million, while debt serviced by business-type activities decreased by \$4.1 million. New debt in the amount of \$6.8 million was issued in 2012 to refund certain 2001 and 2004 certificates of obligation. New debt was issued again in 2013 in the amount of \$51.3 million, for the purpose of improving City parks, drainage, curbs and gutters, paving and streets.

The City maintains a rating of "Aa2" by Moody's Investors Service, Inc. and "AA" Standard & Poor's Ratings Services for the most recent refunding bonds issued and previously outstanding debt held. Ratings reflect the respective view of the organizations and can be revised by such ratings companies if circumstances warrant such.

General property taxes are limited by the Home Rule Charter to \$2.00 per \$100 assessed valuation. There is no limitation within \$2.00 ceiling for debt service. Additional information on the City of Odessa's long-term debt can be found in note 13 of this report.

Economic Factors And Next Year's Budgets and Rates

As our nation continues to experience a struggling economy, Odessa's own local economy continues to offer encouragement based upon some of the past accomplishments noted within the community. Some significant signs of our strong local economy are seen in increased sales tax revenues, as well as the continued rise in local property valuations. It is anticipated that the Odessa economy will maintain its current status. Past economic diversification efforts of the community leaders are expected to afford the continuance of stabilizing trends including low unemployment, solid housing market activities, and traditional consumer spending as growing activity continues to be evident within multiple sectors of the local business community.

Additionally, area business prospects have continued to affect an influx of both residential and commercial opportunities. The City of Odessa will likely continue to experience substantial development in both residential and commercial areas along the JBS Parkway, as well as, along the Billy Hext Road and Eastridge Roads.

The annual budget for the 2014 fiscal year continues to focus on community objectives that are geared toward enhancing the City's image, improving services, researching viable water resources, and expanding economic development. These objectives and other initiatives have allowed financial resources to be allocated toward the completion of major capital improvement, street reconstruction, and park redevelopment projects.

Current budgeted expenditures for the City's 2014 fiscal year total \$176.2 million. This amount represents \$12.0 million, or 7.3%, increase above the 2013 fiscal year budget of \$164.2 million. Changes in expenditures reflected are noted as follows, in millions:

- \$ 3.3 increase in the General Fund
- \$ 0.9 increase in the Water and Sewer Fund
- \$ 2.4 increase in the Solid Waste Fund
- \$ 0.3 increase in the Information Technology Fund
- \$ 0.4 increase in the Risk Management Fund
- \$ 4.0 increase in the Debt Service Fund
- \$ 0.6 increase in Convention and Visitors Fund
- \$ 0.2 increase in the Golf Course Fund
- \$ (0.1) decrease in the Community Development Fund

Total revenues for the 2014 fiscal year are projected at \$174.4 million; an amount that exceeds last year's adopted budget by \$12.9 million, or 8.0%. The more significant revenue changes are derived from several sources including;

- \$ 3.3 increase in the General Fund
- \$ 0.7 increase in the Water and Sewer Fund
- \$ 2.4 increase in the Solid Waste Fund
- \$ 2.0 increase in the Equipment Service Fund
- \$ 0.1 increase in the Information Technology Fund
- \$ 0.2 increase in the Risk Management Fund
- \$ 4.0 increase in the Debt Service Fund
- \$ 0.2 increase in the Golf Course Fund
- \$ (0.1) decrease in the Community Development Fund

Economic Factors and Next Year's Budgets and Rates (continued)

Also, when considering the various revenue categories of the annual budget, General Fund Revenues have historically reflected the most significant change. Property taxes and sales taxes are projected to be the leading revenues in the new fiscal year with a slight increase in property taxes over the prior year. Sales taxes are projected at 14.1% more than the prior year as actual sales tax for 2013 came in \$3.2 million, higher than 2012.

General Fund revenues for the 2014 fiscal year are budgeted at \$74.1 million. The increase over the prior year primarily consists of \$3.5 million increase in sales tax revenue and a slight increase in property tax revenue, along with slight increases in various other operating revenues. Because assessed values of property in Odessa continue to rise, the City was able to maintain its previous year tax rate at 51.275 cents per \$100 valuation.

Expenditures projected for the 2014 General Fund total \$74.1 million. This amount yields a balanced budget for 2014, yet reflects a \$3.3 million, or 4.7% increase, over the previous adopted budget.

Some of the factors contributing to the minor changes within the General Fund expenditures include:

- "5% pay increase to personnel
- "compensation changes
- "addition of eighteen full-time positions
- "increased fleet maintenance and replacement cost
- "transfer of a portion of Neighborhood Development Services from the Community Development Fund to the General Fund

The combined balance of the assigned and unassigned fund balances of the General Fund of \$46.6 million, is essential for positive bond ratings; future budget stabilization considerations; disaster recovery needs, cash flow shortages, and other regulatory changes.

Water and Sewer Fund revenues were budgeted at \$45.6 million and reflect an increase of \$.7 million, or 1.6%, above revenues budgeted for 2013. There was an increase to the rates in 2013 and those rates remain in effect. The rates set at the start of the 2013 fiscal year are expected to generate revenues sufficient to support increased water costs and to encourage water conservation.

Water and Sewer Fund operating expenditures were budgeted at \$45.6 million with a \$.9 million, or 2.0%, increase in operating costs from the previous fiscal year. Budgeted expenditures should cover the rising costs of fleet maintenance, chemical supplies, and other water and sewer system replacement costs, and the major increase in purchasing water.

Economic Factors and Next Year's Budgets and Rates (continued)

In the Solid Waste Fund, budgeted revenues are projected at \$12.8 million and expenditures are estimated at \$12.9 million. Budgeted revenues reflect a \$2.4 million increase, due to an approximate 21% rate increase that went into effect for the 2014 year. Budgeted expenditures reflected a \$2.4 million increase as well. This increase will provide for new equipment as well as to increased positions.

The Golf Course Fund reflects slight increases in proposed activities for the 2014 fiscal year. The Ratliff Ranch Golf Course completed its fifth full year of operations as of August 2013. Increased usage at the slightly increased rate for 2014, are expected to provide an increased revenue stream in the next few years. At present, operating revenues are budgeted at \$1.6 million and expenses are budget at \$1.6 million

Request for Information

This financial report is designed to provide a general overview of the City of Odessa's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Manager, City of Odessa, P.O. Box 4398, Odessa, Texas, 79760-4398.

BASIC FINANCIAL STATEMENTS

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CITY OF ODESSA, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Odessa Development Corporation
ASSETS				
Cash and Investments	\$ 126,390,152	\$ 45,426,663	\$ 171,816,815	\$ 21,095,201
Receivables (Net of Allowance for Uncollectibles)	12,769,369	5,157,898	17,927,267	1,430,692
Internal Balances	(5,328,981)	5,328,981	-	-
Inventories	6,073	474,827	480,900	-
Restricted Assets:				
Cash and Investments	-	3,081,231	3,081,231	-
Property Held for Sale	1,152,744	-	1,152,744	-
Capital Assets (Net of Accumulated Depreciation):				
Land	22,797,005	458,208	23,255,213	-
Buildings	10,441,293	3,672,468	14,113,761	-
Improvements	23,734,808	30,279,822	54,014,630	-
Infrastructure	34,888,902	76,465,948	111,354,850	-
Furniture and Office Equipment	64,411	2,446	66,857	-
Machinery and Equipment	1,075,953	345,012	1,420,965	-
Data Processing Equipment	778,253	8,400	786,653	-
Automotive Equipment	11,526,009	-	11,526,009	-
Radio and Communication Equipment	1,278,650	-	1,278,650	-
Construction-in-Progress	4,184,198	7,373,108	11,557,306	-
TOTAL ASSETS	245,758,839	178,075,012	423,833,851	22,525,893
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on Refunding	466,611	18,906	485,517	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	466,611	18,906	485,517	-
LIABILITIES				
Accounts Payable and Other Current Liabilities	8,729,476	5,291,857	14,021,333	61,304
Accrued Interest Payable	215,744	282,654	498,398	-
Unearned Revenue	-	2,879,416	2,879,416	-
Noncurrent Liabilities:				
Due Within One Year	7,230,327	4,545,925	11,776,252	-
Due in More Than One Year	103,132,679	72,735,811	175,868,490	-
TOTAL LIABILITIES	119,308,226	85,735,663	205,043,889	61,304
NET POSITION				
Net Investment in Capital Assets	78,928,482	76,417,777	155,346,259	-
Restricted for:				
Debt Service	661,216	-	661,216	-
Rate Stabilization	-	1,000,000	1,000,000	-
Unrestricted	47,327,526	14,940,478	62,268,004	22,464,589
TOTAL NET POSITION	\$ 126,917,224	\$ 92,358,255	\$ 219,275,479	\$ 22,464,589

The accompanying notes are an integral part
of these financial statements

**CITY OF ODESSA, TEXAS
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 4,956,868	\$ 410,723	\$ -	\$ -
Finance	1,505,331	214,231	-	-
Public Works	20,508,014	270,278	7,878,178	11,965,870
Planning and Inspection	852,050	894,857	-	-
Public Safety	42,924,590	7,129,828	592,517	70,570
Welfare	1,344,043	-	1,299,216	-
Culture and Recreation	8,146,726	111,833	-	-
Interest on Long-term Debt & Bond Costs	2,000,685	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	82,238,307	9,031,750	9,769,911	12,036,440
Business-Type Activities:				
Water and Sewer	46,220,245	48,351,897	-	7,701,615
Solid Waste	10,567,831	10,618,107	-	-
Ratliff Golf Course	1,717,376	1,445,726	-	21,301
Liquid Waste	10,997	100,971	-	-
Storm Water	714,340	727,691	-	-
TOTAL BUSINESS-TYPE ACTIVITIES	59,230,789	61,244,392	-	7,722,916
TOTAL PRIMARY GOVERNMENT	\$ 141,469,096	\$ 70,276,142	\$ 9,769,911	\$ 19,759,356
Component Unit:				
Odessa Development Corporation	\$ 3,402,527	\$ -	\$ -	\$ -
TOTAL COMPONENT UNITS	\$ 3,402,527	\$ -	\$ -	\$ -

General Revenues:

Property Taxes
Sales Taxes
Franchise and Gross Receipts Taxes
Hotel-Taxes
Industrial Contracts
Unrestricted Investment Earnings
Miscellaneous
Transfers

TOTAL GENERAL REVENUES AND TRANSFERS

CHANGE IN NET POSITION

NET POSITION - BEGINNING OF THE YEAR, as previously reported

Prior Period Adjustment - Change in Accounting Principle

NET POSITION - BEGINNING OF THE YEAR, as restated

NET POSITION - END OF THE YEAR

Net (Expense) Revenue and
Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Odessa Development Corporation
\$ (4,546,145)	\$ -	\$ (4,546,145)	\$ -
(1,291,100)	-	(1,291,100)	-
(393,688)	-	(393,688)	-
42,807	-	42,807	-
(35,131,675)	-	(35,131,675)	-
(44,827)	-	(44,827)	-
(8,034,893)	-	(8,034,893)	-
(2,000,685)	-	(2,000,685)	-
<u>(51,400,206)</u>	<u>-</u>	<u>(51,400,206)</u>	<u>-</u>
-	9,833,267	9,833,267	-
-	50,276	50,276	-
-	(250,349)	(250,349)	-
-	89,974	89,974	-
-	13,351	13,351	-
<u>-</u>	<u>9,736,519</u>	<u>9,736,519</u>	<u>-</u>
(51,400,206)	9,736,519	(41,663,687)	-
-	-	-	3,402,527
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,402,527</u>
23,498,496	-	23,498,496	-
31,807,317	-	31,807,317	8,057,409
9,833,158	-	9,833,158	-
5,382,248	-	5,382,248	-
3,285,615	-	3,285,615	-
216,151	102,867	319,018	(23,713)
28,340	-	28,340	-
(200,000)	200,000	-	-
<u>73,851,325</u>	<u>302,867</u>	<u>74,154,192</u>	<u>8,033,696</u>
<u>22,451,119</u>	<u>10,039,386</u>	<u>32,490,505</u>	<u>4,631,169</u>
104,943,024	83,104,613	188,047,637	17,833,420
(476,919)	(785,744)	(1,262,663)	-
<u>104,466,105</u>	<u>82,318,869</u>	<u>186,784,974</u>	<u>17,833,420</u>
<u>\$ 126,917,224</u>	<u>\$ 92,358,255</u>	<u>\$ 219,275,479</u>	<u>\$ 22,464,589</u>

The accompanying notes are an integral part
of these financial statements.

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**CITY OF ODESSA, TEXAS
GOVERNMENTAL FUNDS
BALANCE SHEET
SEPTEMBER 30, 2013**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 44,700,468	\$ 55,433,821	\$ 11,480,651	\$ 111,614,940
Receivables, net of Allowance for Uncollectibles				
Property Taxes	1,359,578	-	-	1,359,578
Accounts Receivable	9,832,415	40,302	1,442,284	11,315,001
Other	91,959	-	-	91,959
Interfund Receivables	251,148	-	-	251,148
Inventories	6,073	-	-	6,073
Property Held for Sale	-	-	1,152,744	1,152,744
	\$ 56,241,641	\$ 55,474,123	\$ 14,075,679	\$ 125,791,443
LIABILITIES				
Accounts Payable	\$ 1,745,646	\$ 124,677	\$ 1,336,472	\$ 3,206,795
Accrued Payroll	1,897,958	-	25,973	1,923,931
Interfund Payable	300,633	9,500	241,648	551,781
Other	620,017	25,389	-	645,406
	4,564,254	159,566	1,604,093	6,327,913
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Property Tax	1,260,975	-	-	1,260,975
Unavailable Revenue - Other Revenues	3,799,895	-	-	3,799,895
	5,060,870	-	-	5,060,870
FUND BALANCES				
Nonspendable	6,073	-	-	6,073
Restricted	-	54,583,451	12,471,586	67,055,037
Assigned	17,775,677	731,106	-	18,506,783
Unassigned	28,834,767	-	-	28,834,767
	46,616,517	55,314,557	12,471,586	114,402,660
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
	\$ 56,241,641	\$ 55,474,123	\$ 14,075,679	

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.

97,085,282

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

5,060,870

Internal service funds are used by management to charge the costs of fleet management and self-insurance costs to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.

19,357,947

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

(108,989,535)

Net Position of Governmental Activities

\$ 126,917,224

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property Tax, Penalties and Interest	\$ 20,607,189	\$ -	\$ 2,907,949	\$ 23,515,138
City Sales Tax	31,807,317	-	-	31,807,317
Franchise and Gross Receipts	9,833,158	-	-	9,833,158
Fines and Forfeitures	2,884,023	-	135,129	3,019,152
Permits and Licenses	1,448,932	-	-	1,448,932
Grants and Entitlements	-	-	9,623,440	9,623,440
Hotel and Motel Occupancy Tax	-	-	5,382,248	5,382,248
Investment Income	106,287	8,481	21,619	136,387
Donations	-	-	5,984	5,984
Industrial Contracts	3,285,615	-	-	3,285,615
Other	3,246,586	206,341	45,599	3,498,526
Intergovernmental	1,154,831	-	-	1,154,831
Sale of Confiscated Property	-	-	106,731	106,731
TOTAL REVENUES	74,373,938	214,822	18,228,699	92,817,459
EXPENDITURES				
Current				
General Government	4,614,981	-	-	4,614,981
Finance	1,177,677	-	254,999	1,432,676
Public Works	10,642,131	-	7,733,432	18,375,563
Planning and Inspection	943,643	-	-	943,643
Public Safety	40,776,428	-	469,370	41,245,798
Welfare	-	-	1,279,237	1,279,237
Culture and Recreation	4,701,794	34,444	2,432,138	7,168,376
TOTAL CURRENT	62,856,654	34,444	12,169,176	75,060,274
Debt Service				
Principal Retirement	1,052,129	-	1,685,000	2,737,129
Bond Issuance Costs	-	495,331	-	495,331
Interest and Fiscal Charges	280,601	-	1,221,505	1,502,106
TOTAL DEBT SERVICE	1,332,730	495,331	2,906,505	4,734,566
Capital Outlay	8,224,245	157,373	276,507	8,658,125
TOTAL EXPENDITURES	72,413,629	687,148	15,352,188	88,452,965
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (Carried Forward)	1,960,309	(472,326)	2,876,511	4,364,494

(Continued)

**CITY OF ODESSA, TEXAS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (CONTINUED)
YEAR ENDED SEPTEMBER 30, 2013**

	General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (Brought Forward)	\$ 1,960,309	\$ (472,326)	\$ 2,876,511	\$ 4,364,494
OTHER FINANCING SOURCES (USES)				
Certificates of Obligation Issued	-	51,335,000	-	51,335,000
Premium on Certificates of Obligation Issued	-	3,000,508	-	3,000,508
Capital Lease Proceeds	289,718	-	-	289,718
Transfers In	-	-	26,654	26,654
Transfers (Out)	(223,974)	-	(2,680)	(226,654)
TOTAL OTHER FINANCING SOURCES (USES)	65,744	54,335,508	23,974	54,425,226
NET CHANGE IN FUND BALANCES	2,026,053	53,863,182	2,900,485	58,789,720
FUND BALANCE - AT BEGINNING OF YEAR	44,590,464	1,451,375	9,571,101	55,612,940
FUND BALANCE - AT END OF YEAR	\$ 46,616,517	\$ 55,314,557	\$ 12,471,586	\$ 114,402,660

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

Amounts reported for governmental activities in the statement of activities (page 21) are different because:

Net change in fund balances-total governmental funds (page 25)	\$ 58,789,720
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,220,542
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	10,888,320
Net change in revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the funds (i.e. deferred revenues and earned but unavailable revenues).	194,441
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.	(51,909,422)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(1,774,982)
Internal service funds are used by management to charge the costs of the garage, warehouse, self-insurance and information technology funds to individual funds. The net gain of certain activities of internal service funds is reported with governmental activities.	2,042,500
Change in net position of governmental activities (page 21)	<u>\$ 22,451,119</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF ODESSA, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL
YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amount		Actual	Variance Over (Under)
	Original	Final		
REVENUES				
Property Tax, Penalties and Interest	\$ 20,112,788	\$ 20,112,788	\$ 20,607,189	\$ 494,401
City Sales Tax	25,240,023	25,240,023	31,807,317	6,567,294
Franchise and Gross Receipts	9,219,360	9,219,360	9,833,158	613,798
Fines and Forfeitures	3,294,600	3,294,600	2,884,023	(410,577)
Permits and Licenses	491,000	491,000	1,448,932	957,932
Investment Income	100,000	100,000	106,287	6,287
Industrial Contracts	2,706,000	2,706,000	3,285,615	579,615
Other	3,552,900	3,552,900	3,246,586	(306,314)
Intergovernmental	1,046,847	1,046,847	1,154,831	107,984
TOTAL REVENUES	65,763,518	65,763,518	74,373,938	8,610,420
EXPENDITURES				
Current				
General Government	4,506,523	4,664,680	4,614,981	(49,699)
Finance	722,403	2,114,161	1,177,677	(936,484)
Public Works	10,524,497	10,718,534	10,642,131	(76,403)
Planning and Inspection	863,405	883,543	943,643	60,100
Public Safety	40,024,847	40,962,214	40,776,428	(185,786)
Culture and Recreation	4,568,276	4,704,922	4,701,794	(3,128)
Landfill closure and postclosure care (\$5,046) [total amount determined for the year under GASB-18] plus \$5,046 change in general long-term debt account group liability)	-	-	-	-
TOTAL CURRENT	61,209,951	64,048,054	62,856,654	(1,191,400)
Debt Service				
Principal Retirement	1,052,129	1,052,129	1,052,129	-
Interest	280,601	280,601	280,601	-
Capital Outlay	2,891,837	24,504,468	8,224,245	(16,280,223)
TOTAL EXPENDITURES	65,434,518	89,885,252	72,413,629	(17,471,623)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	329,000	(24,121,734)	1,960,309	26,082,043
OTHER FINANCING SOURCES (USES)				
Capital Lease Proceeds	-	-	289,718	(289,718)
Transfers (Out)	(329,000)	(329,000)	(223,974)	(105,026)
TOTAL OTHER FINANCING SOURCES (USES)	(329,000)	(329,000)	65,744	(394,744)
NET CHANGE IN FUND BALANCE	-	(24,450,734)	2,026,053	26,476,787
FUND BALANCE - AT BEGINNING OF YEAR,	44,590,464	44,590,464	44,590,464	-
FUND BALANCE - AT END OF YEAR	\$ 44,590,464	\$ 20,139,730	\$ 46,616,517	\$ 26,476,787

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013**

	Business-Type Activities - Enterprise Funds	
	Water and Sewer Fund	Solid Waste Fund
ASSETS		
CURRENT ASSETS:		
Cash and Investments	\$ 43,468,425	\$ 1,081,051
Accounts Receivable (Net of Allowance for Uncollectible Accounts)	4,097,686	988,531
Interfund Receivable	-	-
Inventories	410,401	-
RESTRICTED ASSETS:		
Cash and Investments	3,081,231	-
TOTAL CURRENT ASSETS	51,057,743	2,069,582
NONCURRENT ASSETS:		
CAPITAL ASSETS:		
Land	437,690	-
Buildings	9,120,631	-
Improvements	78,219,082	-
Infrastructure	147,113,867	-
Furniture and Office Equipment	99,670	-
Machinery and Equipment	2,765,559	39,082
Data Processing Equipment	829,812	6,441
Automotive Equipment	-	-
Radio and Electronic Equipment	3,750	-
Construction-In-Progress	7,373,108	-
Less Accumulated Depreciation	(130,606,888)	(40,425)
TOTAL CAPITAL ASSETS (Net of Accumulated Depreciation)	115,356,281	5,098
DEFERRED OUTFLOWS OF RESOURCES:		
Loss on Refunding (Net of Accumulated Amortization)	18,906	-
TOTAL NONCURRENT ASSETS	115,375,187	5,098
TOTAL ASSETS	166,432,930	2,074,680

Business-Type Activities - Enterprise Funds				Governmental
Ratliff Golf Course Fund	Liquid Waste Fund	Storm Water Fund	Totals	Activities - Internal Service Funds
\$ 125,610	\$ 200,976	\$ 550,601	\$ 45,426,663	\$ 14,775,211
9,867	-	61,814	5,157,898	2,831
-	-	-	-	300,633
64,426	-	-	474,827	-
-	-	-	3,081,231	-
<u>199,903</u>	<u>200,976</u>	<u>612,415</u>	<u>54,140,619</u>	<u>15,078,675</u>
20,518	-	-	458,208	89,531
206,604	-	-	9,327,235	1,356,554
3,883,791	-	-	82,102,873	466,874
-	-	-	147,113,867	-
-	-	-	99,670	88,595
61,231	-	-	2,865,872	1,711,377
7,000	-	-	843,253	3,447,921
-	-	-	-	31,208,480
-	-	-	3,750	81,624
-	-	-	7,373,108	-
<u>(935,111)</u>	<u>-</u>	<u>-</u>	<u>(131,582,424)</u>	<u>(24,766,756)</u>
<u>3,244,033</u>	<u>-</u>	<u>-</u>	<u>118,605,412</u>	<u>13,684,200</u>
-	-	-	18,906	-
<u>3,244,033</u>	<u>-</u>	<u>-</u>	<u>118,624,318</u>	<u>13,684,200</u>
<u>3,443,936</u>	<u>200,976</u>	<u>612,415</u>	<u>172,764,937</u>	<u>28,762,875</u>

(Continued)

**CITY OF ODESSA, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION (CONTINUED)
 SEPTEMBER 30, 2013**

	Business-Type Activities - Enterprise Funds	
	Water and Sewer Fund	Solid Waste Fund
LIABILITIES		
CURRENT LIABILITIES:		
Accounts Payable	\$ 4,061,436	\$ 244,437
Compensated Absences	217,545	81,049
Accrued Payroll	248,924	117,479
Contracts Payable	289,333	-
Deposits and Billings Payable	2,879,416	-
Current Portion of Bonds Payable	4,220,000	-
Accrued Interest	282,654	-
Other Liabilities	216,164	60,442
	12,415,472	503,407
NONCURRENT LIABILITIES:		
Compensated Absences	403,297	232,700
Other Post Employment Benefits Payable	1,179,661	442,589
TMRS Phase In Liability	753,427	280,555
Bonds Payable (Net of Current Maturities)	69,130,688	-
	71,467,073	955,844
TOTAL LIABILITIES	83,882,545	1,459,251
NET POSITION		
Net Investment in Capital Assets	73,168,646	5,098
Restricted for Rate Stabilization	1,000,000	-
Unrestricted	8,381,739	610,331
TOTAL NET POSITION	\$ 82,550,385	\$ 615,429

Reconciliation to government-wide statement of net position:

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Net position of business-type activities

Business-Type Activities - Enterprise Funds				Governmental
Ratliff Golf Course Fund	Liquid Waste Fund	Storm Water Fund	Totals	Activities - Internal Service Funds
\$ 15,179	\$ 634	\$ 510	\$ 4,322,196	\$ 2,812,704
20,453	-	6,878	325,925	112,132
25,199	-	12,120	403,722	139,010
-	-	-	289,333	-
-	-	-	2,879,416	-
-	-	-	4,220,000	-
-	-	-	282,654	-
-	-	-	276,606	1,629
<u>60,831</u>	<u>634</u>	<u>19,508</u>	<u>12,999,852</u>	<u>3,065,475</u>
54,075	-	55,085	745,157	384,134
89,419	6,375	31,302	1,749,346	368,101
58,312	3,803	14,523	1,110,620	258,237
-	-	-	69,130,688	-
<u>201,806</u>	<u>10,178</u>	<u>100,910</u>	<u>72,735,811</u>	<u>1,010,472</u>
<u>262,637</u>	<u>10,812</u>	<u>120,418</u>	<u>85,735,663</u>	<u>4,075,947</u>
3,244,033	-	-	76,417,777	13,684,200
-	-	-	1,000,000	-
(62,734)	190,164	491,997	9,611,497	11,002,728
<u>\$ 3,181,299</u>	<u>\$ 190,164</u>	<u>\$ 491,997</u>	87,029,274	<u>\$ 24,686,928</u>
			<u>5,328,981</u>	
			<u>\$ 92,358,255</u>	

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 YEAR ENDED SEPTEMBER 30, 2013**

	Business-Type Activities - Enterprise Funds	
	Water and Sewer Fund	Solid Waste Fund
OPERATING REVENUES		
Water	\$ 31,599,886	\$ -
Sewer	13,457,269	-
Other	3,294,742	31,483
User Fees	-	10,586,624
TOTAL OPERATING REVENUES	48,351,897	10,618,107
OPERATING EXPENSES		
Personal Services	6,628,561	2,993,887
Supplies and Materials	17,058,386	83,600
Other Services	10,181,333	6,861,327
Maintenance	2,858,457	186,257
Depreciation and Amortization	6,566,193	5,099
Other	-	437,661
TOTAL OPERATING EXPENSES	43,292,930	10,567,831
OPERATING INCOME (LOSS)	5,058,967	50,276
NON-OPERATING REVENUES (EXPENSES)		
Investment Income	98,998	2,401
Gain(Loss) on Sale of City Property	-	-
Interest Expense and Fiscal Charges	(3,549,630)	-
Other Non-Operating Expense	-	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(3,450,632)	2,401
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	1,608,335	52,677
CAPITAL CONTRIBUTIONS	7,701,615	-
TRANSFERS IN (OUT)	-	-
CHANGE IN NET POSITION	9,309,950	52,677
NET POSITION - BEGINNING OF YEAR, as previously reported	74,026,179	562,752
Prior Period Adjustment - Change in Accounting Principles	(785,744)	-
NET POSITION - BEGINNING OF YEAR, as restated	73,240,435	562,752
NET POSITION - END OF YEAR	\$ 82,550,385	\$ 615,429

Change in fund net position of proprietary funds
 Adjustment to reflect the inclusion of internal service fund activities related to enterprise fund.
 Change in net position of business-type activities

Business-Type Activities - Enterprise Funds				Governmental
Ratliff Golf Course Fund	Liquid Waste Fund	Storm Water Fund	Totals	Activities - Internal Service Funds
\$ -	\$ -	\$ -	\$ 31,599,886	\$ -
-	-	-	13,457,269	-
-	-	-	3,326,225	595,006
<u>1,445,726</u>	<u>100,971</u>	<u>727,691</u>	<u>12,861,012</u>	<u>25,238,937</u>
<u>1,445,726</u>	<u>100,971</u>	<u>727,691</u>	<u>61,244,392</u>	<u>25,833,943</u>
612,322	-	312,037	10,546,807	3,500,482
333,335	1,911	-	17,477,232	3,503,083
543,146	9,086	363,945	17,958,837	9,159,615
85,149	-	17,122	3,146,985	3,818,880
143,424	-	-	6,714,716	4,480,138
-	-	-	437,661	832,497
<u>1,717,376</u>	<u>10,997</u>	<u>693,104</u>	<u>56,282,238</u>	<u>25,294,695</u>
<u>(271,650)</u>	<u>89,974</u>	<u>34,587</u>	<u>4,962,154</u>	<u>539,248</u>
-	333	1,135	102,867	31,631
-	-	-	-	1,171,506
-	-	-	(3,549,630)	-
-	-	(21,236)	(21,236)	(321,542)
<u>-</u>	<u>333</u>	<u>(20,101)</u>	<u>(3,467,999)</u>	<u>881,595</u>
<u>(271,650)</u>	<u>90,307</u>	<u>14,486</u>	<u>1,494,155</u>	<u>1,420,843</u>
21,301	-	-	7,722,916	1,243,972
<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>	<u>-</u>
<u>(50,349)</u>	<u>90,307</u>	<u>14,486</u>	<u>9,417,071</u>	<u>2,664,815</u>
3,231,648	99,857	477,511	78,397,947	22,022,113
-	-	-	(785,744)	-
<u>3,231,648</u>	<u>99,857</u>	<u>477,511</u>	<u>77,612,203</u>	<u>22,022,113</u>
<u>\$ 3,181,299</u>	<u>\$ 190,164</u>	<u>\$ 491,997</u>	<u>\$ 87,029,274</u>	<u>\$ 24,686,928</u>
			\$ 9,417,071	
			622,315	
			<u>\$ 10,039,386</u>	

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 YEAR ENDED SEPTEMBER 30, 2013**

	<u>Business-Type Activities - Enterprise Funds</u>	
	<u>Water and Sewer Fund</u>	<u>Solid Waste Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Customers	\$ 44,383,008	\$ 10,561,483
Cash Received from Other Funds for Services	3,294,742	-
Cash Paid to Employees	(6,609,566)	(3,005,020)
Cash Paid for Goods and Services	(24,114,910)	(3,394,114)
Cash Paid to Other Funds for Services	(7,925,828)	(4,265,743)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>9,027,446</u>	<u>(103,394)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Capital Contributions Out	-	-
Transfer from(to) General Fund	-	-
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Debt	(4,319,627)	-
Interest Paid on Debt	(3,554,053)	-
Acquisition and Construction of Capital Assets	(9,926,009)	-
Proceeds from Sale of Capital Assets	-	-
NET CASH (USED) BY CAPITAL AND RELATED FINANCIAL ACTIVITIES	<u>(17,799,689)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income Received on Investments	98,998	2,401
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>98,998</u>	<u>2,401</u>
 NET INCREASE (DECREASE) IN CASH	 <u>(8,673,245)</u>	 <u>(100,993)</u>
CASH - AT BEGINNING OF YEAR (Included in Cash and Investments of Business-Type Activities \$53,403,716 and \$3,634,971 in Restricted Accounts)	 <u>55,222,901</u>	 <u>1,182,044</u>
 CASH - AT END OF YEAR (Included in Cash and Investments of Business-Type Activities of \$45,426,663 and \$3,081,231 in Restricted Accounts)	 <u>\$ 46,549,656</u>	 <u>\$ 1,081,051</u>

Business-Type Activities - Enterprise Funds				Governmental
Ratliff				Activities -
Golf	Liquid	Storm	Totals	Internal
Course	Waste	Water		Service
Fund	Fund	Fund		Funds
\$ 1,483,572	\$ 100,971	\$ 726,599	\$ 57,255,633	\$ 25,237,443
-	-	-	3,294,742	595,006
(591,426)	-	(293,849)	(10,499,861)	(3,337,084)
(674,925)	(10,363)	(24,446)	(28,218,758)	(15,732,159)
(292,061)	-	(360,859)	(12,844,491)	(1,339,116)
<u>(74,840)</u>	<u>90,608</u>	<u>47,445</u>	<u>8,987,265</u>	<u>5,424,090</u>
-	-	(21,236)	(21,236)	(321,542)
200,000	-	-	200,000	-
<u>200,000</u>	<u>-</u>	<u>(21,236)</u>	<u>178,764</u>	<u>(321,542)</u>
-	-	-	(4,319,627)	-
-	-	-	(3,554,053)	-
-	-	-	(9,926,009)	(7,354,532)
-	-	-	-	1,171,506
<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,799,689)</u>	<u>(6,183,026)</u>
-	333	1,135	102,867	31,631
-	333	1,135	102,867	31,631
<u>125,160</u>	<u>90,941</u>	<u>27,344</u>	<u>(8,530,793)</u>	<u>(1,048,847)</u>
450	110,035	523,257	57,038,687	15,824,058
<u>\$ 125,610</u>	<u>\$ 200,976</u>	<u>\$ 550,601</u>	<u>\$ 48,507,894</u>	<u>\$ 14,775,211</u>

(Continued)

**CITY OF ODESSA, TEXAS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 YEAR ENDED SEPTEMBER 30, 2013**

	Business-Type Activities - Enterprise Funds	
	Water and Sewer Fund	Solid Waste Fund
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
OPERATING INCOME (LOSS)	\$ 5,058,967	\$ 50,276
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities		
Depreciation and Amortization	6,566,193	5,099
(Increase) Decrease in Accounts Receivable	(890,602)	(56,624)
(Increase) Decrease in Inventories	128,551	-
(Increase) Decrease in Interfund Receivable	-	-
(Decrease) Increase in Accounts Payable	(1,616,916)	(88,089)
(Decrease) Increase in Accrued Employee Benefits Payable	(57,016)	(49,629)
(Decrease) Increase in Accrued Payroll	(11,381)	(1,031)
(Decrease) Increase in Interfund Payables	-	-
(Decrease) Increase in Contracts Payable	(462,380)	-
(Decrease) Increase in Deposits and Billings Payable	216,455	-
(Decrease) Increase in Other Post Employment Payable	81,890	37,031
(Decrease) Increase in TMRS Phase In Liability	5,502	2,496
(Decrease) Increase in Other Liabilities	8,183	(2,923)
TOTAL ADJUSTMENTS	3,968,479	(153,670)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 9,027,446	\$ (103,394)

NONCASH INVESTING CAPITAL AND FINANCING ACTIVITIES

During the fiscal year ended September 30, 2013, the Water and Sewer Fund and the Ratliff Golf Course Fund acquired capital assets of \$7,701,615 and \$21,301, respectively, through contributed capital.

During the fiscal year ended September 30, 2013, the Internal Service Funds acquired capital assets of \$1,243,972 through contributed capital.

Business-Type Activities - Enterprise Funds				Governmental
Ratliff Golf Course Fund	Liquid Waste Fund	Storm Water Fund	Totals	Activities - Internal Service Funds
\$ (271,650)	\$ 89,974	\$ 34,587	\$ 4,962,154	\$ 539,248
143,424	-	-	6,714,716	4,480,138
(9,867)	-	(1,092)	(958,185)	(1,494)
(6,883)	-	-	121,668	-
47,713	-	-	47,713	(135,640)
1,527	634	(4,238)	(1,707,082)	571,801
9,795	-	10,354	(86,496)	67,995
2,853	-	3,385	(6,174)	56,945
-	-	-	-	(194,902)
-	-	-	(462,380)	-
-	-	-	216,455	-
7,828	-	4,215	130,964	35,526
420	-	234	8,652	2,932
-	-	-	5,260	1,541
196,810	634	12,858	4,025,111	4,884,842
\$ (74,840)	\$ 90,608	\$ 47,445	\$ 8,987,265	\$ 5,424,090

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
SEPTEMBER 30, 2013**

	Agency Funds
ASSETS	
Cash and Investments	\$ 1,117,608
Accounts Receivable	127,227
TOTAL ASSETS	\$ 1,244,835
LIABILITIES	
Accounts Payable	\$ 944,232
Deposits and Billings Payable	300,603
TOTAL LIABILITIES	\$ 1,244,835

The accompanying notes are an integral part
of these financial statements.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

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**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Odessa, Texas (the City), was incorporated on April 18, 1927, under what is commonly known as the Home Rule Amendment to the Constitution of the state of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Highways and Streets, Sanitation, Public Improvements, Planning and Inspection, Water Utilities, Parks and Recreation, and General Administrative Services.

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB) and other authoritative literature. The following is a summary of the more significant policies:

GASB requires that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

- Management's Discussion and Analysis (MD&A) – MD&A is RSI presented before the basic financial statements, which introduces the basic financial statements and provides an analytical overview of the government's financial activities.
- Basic Financial Statements – The basic financial statements, including notes to the financial statements that are essential to a user's understanding of the statements, are presented on two basic levels:
 - A. The government-wide level where all statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements present all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, expenses and gains and losses of the City and distinguish between governmental and business-type activities of the City and activities of the City's discretely presented component unit.
 - B. The fund level, where governmental fund statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting, and proprietary and fiduciary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements focus on information about the City's major governmental and enterprise funds.
- Required Supplementary Information - RSI, other than MD&A, includes budgetary comparison schedules for the General Fund and any major governmental funds and other data, such as pension related data, required by other GASB statements. The budgetary comparison schedules for the General Fund have been reported as part of the basic financial statements.

The Capital Projects Fund does not adopt an annual budget but rather a budget covering the life of the respective projects. Budgetary information is disclosed in Note 3. Pension related data and trend information is disclosed in Note 7.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Reporting Entity

Accounting principles generally accepted in the United States of America require that these financial statements present the City (the primary government) and its component units. Component units generally are legally separate entities for which the primary government is considered to be financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: the primary government is accountable for the potential component unit (i.e., the primary government appoints the voting majority of its board) and the primary government is able to impose its will upon the potential component unit, or there is a possibility that the potential component unit may provide specific financial benefits or impose specific financial burdens on the primary government. Additionally, the primary government may determine, in management's professional judgment, that the inclusion of an entity that does not meet the financial accountability criteria is necessary to prevent the reporting entity's financial statements from being misleading. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities; and are appropriately presented as funds of the primary government. Each discretely presented component unit is reported in a separate column in the government wide financial statements to emphasize that it is legally separate from the primary government.

The component units discussed in this note are included in the City's reporting entity because of the nature and significance of their operational or financial relationships with the City.

Individual Component Unit Disclosures:

Discrete Component Units:

1. Odessa Development Corporation – "ODC" is a quasi-governmental organization created on December 1, 1997, as a public instrumentality and non-profit industrial development corporation under provisions of the Development Corporation Act of 1979 of the State of Texas, and is funded by a 1/4 percent sales tax. The City of Odessa serves as fiscal agent for the Corporation's funds and accounting records and, accordingly, its cash and investments are held by the City in a fiduciary capacity.

ODC is considered to be a part of the City's financial reporting entity because the City Council appoints its Board of Directors, approves its budget, and exercises final authority over its operations. ODC is discretely presented in a separate column of the City's comprehensive annual financial report to emphasize that it is legally separate from the City. Further information concerning ODC may be found in Note 8 of this financial report.

2. Ector County Parks Foundation, Inc. – The Foundation is a non-profit organization, which assists Odessa and Ector County governmental agencies and local groups improve park systems and recreational facilities through land acquisition and development of existing parks. A substantial amount of funding for the Foundation is acquired through the \$1 donation on the City's customer water bills and its expenditure is controlled by the City. As of and for the year ended September 30, 2013, the financial activity for the Foundation is immaterial to the City of Odessa's reporting entity. The Foundation issues its own annual audited financial statements.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Reporting Entity – Continued

3. The Odessa Health Facilities Development Corporation - "Development Corporation" is a non-profit corporation created pursuant to the provisions of the Health Facilities Development Act for the purpose of issuing Health Facility Revenue Bonds. A majority of the Development Corporation's board is appointed by the City Council and the Council can impose will. The Corporation issued several bonds from 1982 through 1994, of which all have been paid out. These bonds posed no liability to the Corporation or the City as they were considered "no commitment debt". As of and for the year ended September 30, 2013, there was no financial activity (no operating or account balances) for the Odessa Health Facilities Development Corporation, thus no financial information is included in the City's basic financial statements.
4. Odessa Economic Development Corporation - "Economic Development" is a non-profit corporation created pursuant to the Development Corporation Act of 1979, as amended, to promote and develop manufacturing and commercial enterprises by issuing Industrial Development Revenue Bonds. A majority of the Economic Development's board is appointed by the City Council and the Council can impose will. As of and for the year ended September 30, 2013 there was no financial activity (no operations or account balances) for the Economic Development Corporation, thus no financial information is included in the City's basic financial statements.

The Odessa Health Facilities Development Corporation and the Odessa Economic Development Corporation do not issue separate component unit financial statements and financial information therefore cannot be obtained outside of the City of Odessa's basic financial statements.

The City Council is also responsible for appointing members of the boards of other organizations, but the City's accountability for these organizations do not extend beyond making appointments. The organizations included in this category are the Odessa Housing Authority, the Odessa Housing Finance Corporation, and PALS.

Joint Venture:

On August 28, 2001, the City signed an interlocal agreement with the City of Midland, Texas to create the Midland-Odessa Urban Transit District ("MOUTD"). The MOUTD shall be exclusively governed by both City Councils or they may delegate this authority to an equally appointed Board. For the year ended September 30, 2013, the two Cities made a \$500,000 contribution into the MOUTD. Further information concerning MOUTD may be found in Note 9 of this financial report.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements

As previously discussed, the basic financial statements of the City are presented at two basic levels, the government-wide level and the fund level. These statements focus on the City as a whole at the government-wide level and on major funds at the fund level. 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 for the financial reporting entity of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The government-wide statement of net position reports all financial and capital resources of the City and is presented in an “assets plus deferred outflows of resources minus liabilities and deferred inflows of resources equal net position” format with net position reported in the order of relative liquidity. Also, assets and liabilities are presented in relative order of liquidity with liabilities which have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

The government-wide statement of activities identifies the relative financial burden of each of the City’s functions (General, Finance, Public Works, Planning and Inspection, Public Safety, Welfare, and Cultural and Recreation) or segments (Water and Sewer, Solid Waste, Liquid Waste, Golf and Storm Water) on the taxpayers by identifying direct expenses and the extent of self support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function or segment. Program revenues are revenues derived directly from the function or segment or from other sources which reduce the net cost of the function to be financed from general government revenues.

Program revenues are: 1) charges to customers who purchase, use, or directly benefit from services provided by a function or segment and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function or segment and, 3) grants and contributions restricted to capital requirements of a function or segment. Items such as taxes, investment earnings and non-specific grants are not included as program revenues but are instead reported as general revenues which normally cover the net cost of a function or segment.

Interfund services provided and used are not eliminated in process of consolidation in the government-wide statement of activities. However, the effect of internal service fund activities in the government-wide statements is eliminated to the extent possible to avoid the effect of “doubling up” internal service fund activity. Internal service funds report activities which provide goods or services to the financial reporting entity on a cost reimbursement basis. Any net profit or loss from these activities is allocated back to the function or segment that benefited from the goods or services provided based upon their proportionate benefit to the extent possible. Any residual assets of internal service funds are reported with governmental activities at the entity-wide level.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

B. Government-Wide and Fund Financial Statements - Continued

Fund level financial statements are presented for governmental funds, proprietary funds with a focus on major funds, and fiduciary funds, which are excluded from the government-wide financial statements because they do not represent assets which can be used to support the City's programs. GASB sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category and for the governmental and enterprise funds combined) for the determination of major funds. Non-major funds are combined in a column in the fund financial statements.

Additionally, any fund deemed particularly important by the City may be reported as a major fund. The financial information for each major fund is presented in a separate column, with nonmajor funds aggregated and displayed in a single column, on either the governmental or proprietary fund financial statements. The fund level statements for proprietary funds also contain combined totals for all internal service funds. This information is presented in a separate column immediately to the right of the total column for all enterprise fund activity.

The focus of fiduciary funds is on net position and changes in net position. These funds report assets held in a trustee or agency capacity by the City for the benefit of others and cannot be used to support City activities.

C. Measurement Focus and Basis of Accounting

The government-wide statements and proprietary fund statements are prepared using the economic resources measurement focus and the accrual basis of accounting. The agency funds have no measurement focus. Exchange and exchange-like transactions, transactions in which the City gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities are recognized when the exchange occurs. Nonexchange transactions, transactions in which the City gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets or liabilities are recognized in accordance with GASB. The treatment of nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Capital assets are reported as historical cost and depreciated, except for inexhaustible assets such as land, in accordance with the City's depreciation policy.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting – Continued

In the case of property and sales taxes, available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Grant revenues are considered to be available if they are to be received within one year. Expenditures are generally recorded when a liability is incurred. However, expenditures related to general long-term debt, compensated absences, and claims and judgments are recorded only when payment is due.

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

Governmental fund level revenues which have been accrued based upon the susceptible to accrual concept are:

General Fund – ad valorem taxes, sales taxes, interest and federal and state grant proceeds, except where such grants are expenditure driven and other requirements related to the grant have not been met.

Special Revenue Funds – federal and state grant proceeds and interest, except where such grants are expenditure driven and other requirements related to the grant have not been met.

Debt Service Fund – ad valorem taxes and interest.

Capital Projects Fund – interest.

Proprietary fund activities are accounted for using the economic resources measurement focus and the accrual basis of accounting. This measurement focus includes all assets and liabilities on the balance sheet. Operating statements using this focus present a net total assets view of increases (revenues) and decreases (expenses) in the fund.

Proprietary fund operating statements distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses generally are the result of providing or delivering goods or services in association with the fund's principal ongoing operations. The principal operating revenues of the City's water and sewer, solid waste, liquid waste, golf and storm water funds are charges of this type. Operating expenses include the costs of administration, sales, services and depreciation.

Transactions resulting in nonoperating revenues and expenses are normally created by such items as cash flows from capital and related financing activities, noncapital financing activities, investing activities, and include most nonexchange and exchange-like revenues.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting – Continued

The following major funds are used by the City:

GOVERNMENTAL FUNDS

General Fund – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by business-type activities).

Other Governmental Funds – The non-major governmental funds include:

1. *Special Revenue Funds* – The Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.
2. *Debt Service Fund* – The Debt Service Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Financing is provided by property tax levies.

PROPRIETARY FUNDS

All Proprietary Funds are considered major funds.

Water and Sewer Fund – The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. All activities necessary to provide such services are accounted for in this fund, including administration, operations, maintenance, financing, and billing and collection.

Solid Waste Fund – The Solid Waste Fund is used to account for the provision of solid waste services to the residents of the City

Ratliff Golf Course Fund – The Ratliff Golf Course Fund is used to account for the provision of a public golf course located in Odessa.

Liquid Waste Fund – The Liquid Waste Fund is used to account for the provision of liquid waste disposal to the City, County and citizens.

Storm Water Fund – The Storm Water Fund is used to account for the provision of the new Storm Water Program as approved by the Texas Commission on Environmental Quality and Environmental Protection Agency (EPA).

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

C. Measurement Focus and Basis of Accounting – Continued

OTHER FUND TYPES

Internal Service Funds account for the fleet management services, insurance and information technology services provided to other departments or agencies of the City or to other governments, on a cost reimbursement basis.

Agency Funds are used to report assets which cannot be used to support City activities and are held in an agency capacity by the City for the benefit of others. The Payroll Fund accounts for the collection and distribution of wages, salaries, and employee deductions. The Ector County Utility District Fund accounts for the billing and collection service provided to this entity by the City. The Martin Luther King Memorial and Motor MPO funds account for the financial activities of those activities.

D. Cash and Investments

Cash and Investments include amounts in demand deposits as well as investments. Cash and Cash Equivalents, as defined for cash flow purposes, include cash and investments with original maturity dates no longer than three months. The City's investments are stated at fair value, except for external investment pools. Fair value is based on quoted market prices as of the valuation date. Management's intent is to hold all investments to maturity and thereby recover the full value of the various investments made. The gain/loss resulting from valuation will be reported within the "Investment Income" account on the Statement of Revenues, Expenditures, and Changes in Fund Balance (Equity).

The portfolio did hold investments in external pools that are not SEC-registered. The external investment pools are:

LOGIC - LOGIC was created by an interlocal contract under the laws of the state of Texas and is governed by the Public Funds Investment Act, Chapter 2256, Texas Government Code and is rated AAAM by Standard & Poor's. It is not registered with the SEC as an investment company. LOGIC is governed by a board of directors consisting of three local government participants. It is required by the Public Funds Investment Act to maintain an "AAA" rating.

LOGIC uses the amortized cost method permitted by SEC Rule 2a7. LOGIC operates in substantial compliance with Rule 2a7, to the extent such rule is applicable to its operations. The fair value of LOGIC shares is the same as the value of LOGIC's shares, pursuant to the amortized cost method permitted by Rule 2a7.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

D. Cash and Investments – Continued

TexPool – Texpool was also created by an interlocal contract and is governed by the Public Funds Investment Act, and is rated AAAM by Standard and Poor's. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than fair value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

TexStar – TexStar is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. TexStar is a local government investment pool created under the Interlocal Cooperation Act and is rated AAAM by Standard and Poor's. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas Public Fund Investment Act. The fair value of the position in TexStar is the same as the value of TexStar shares.

E. Receivables, Payables and Interfund Transactions

The City's Water and Sewer Enterprise Fund operates on a monthly billing cycle, issuing billings continuously throughout the month. The accounts receivable for water and sewer at September 30, 2013, represents the final unpaid billings issued prior to September 30, 2013, and includes an amount for unbilled September 2013 consumption.

Short-term loans between funds are reported as interfund receivables in the fund making the loan and as interfund payables in the fund receiving the loan. Arms length transactions between funds for goods and services are reported as revenues in the selling fund and as expenses/expenditures in the acquiring fund. Any unpaid amounts are appropriately recorded as interfund receivables/payables. Any residential balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances", flows or assets from one fund to another with no requirement for repayment or without an equivalent flow of assets in return are accounted for as transfers.

F. Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out method and recorded under the consumption method. Inventories in the General Fund consist of expendable supplies. The cost is recorded as inventory at the time individual items are acquired and included in expenditures as supplies are used.

G. Restricted Assets

These assets consist of cash and other investments legally restricted for the repayment of Water and Sewer debt as required by applicable bond covenants.

H. Property Held for Sale

The City acquired certain properties in conjunction with a federal grant program. These properties will be rehabbed and then sold to qualified buyers.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

I. Capital Assets

Capital Assets are defined as a purchase, construction or other acquisition of any equipment, facilities or other similar assets, in which the cost is in excess of \$5,000 and has a useful life of more than one year. These assets include property, plant, equipment, infrastructure, and all other tangible and intangible assets purchased or acquired. Purchased or constructed assets are carried at historical cost or estimated historical cost. Infrastructure assets, which include streets and associated drainage, sidewalks, bridges, drainage systems, water and sewer systems, lighting systems and other similar type assets, have been recorded at historical or estimated historical cost. Donated assets are recorded at estimated fair market value at the time of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets for business-type activities is capitalized as part of the value of the asset during the construction period.

Depreciable capital assets are depreciated using the straight line method over the following estimated useful lives:

Buildings	25 - 40 Years	Machinery and Equipment	5 - 20 Years
Improvements	25 - 40 Years	Data Processing Equipment	5 - 20 Years
Infrastructure	25 Years	Automotive Equipment	3 - 20 Years
Furniture and Office Equipment	7 - 10 Years	Radio Equipment	5 Years

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on refunding debt reported in the government-wide statement of net position. A deferred charge on refunding debt results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and other revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

K. Compensated Absences

The City has in place a consolidated leave policy for sick, vacation, and emergency leave which is referred to as unileave. The rate at which employees accrue unileave time is dependent upon length of service and ranges from seventeen days to twenty-days per year. Any unileave not used within the year in which it was accrued may be carried over to the following year without limitation, until termination of employment, at which time it would be paid to the employee at his or her current salary per hour. The vacation time that had accrued prior to the inception of this policy was transferred to the employee's unileave account and considered to be the beginning unileave balance. All sick leave an employee accrued prior to this policy was placed in an Old Plan accrual account.

This sick leave is available to the employee to be utilized after the employee has utilized five consecutive full days of unileave and needs additional days for the same reason. At termination, those employees with sick leave hours remaining under the Old Plan will be paid for those hours at a rate of one-for-two, which means the employee will receive one hour of current pay for every two hours of sick leave accrued. The City accrues a liability for compensated absences that meet the following criteria:

1. The City's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' service already rendered.
2. The obligation relates to rights that vest or accumulate.
3. Payment for compensation is probable.
4. The amount can be reasonably estimated.

In accordance with the above criteria, the City accrued a liability for unileave and for remaining sick leave, and compensatory time which has been earned but not taken by City employees. For government-wide financial statements and proprietary fund financial statements, the entire liability for compensated absences has been recorded in the liabilities section.

L. Long-Term Obligations

General Obligation Bonds, Certificates of Obligation and Capital Leases which have been issued to fund purchases and capital projects of the general government that are to be repaid from tax revenues of the City are reported in the government-wide statement of net assets. Revenue Bonds and Capital Leases which have been issued to fund capital projects of proprietary funds that are to be repaid with funds from proprietary fund assets are reported in the proprietary funds. Bonds payable are reported net of the associated premium or discount at the government-wide level and in the fund level proprietary fund statements.

The government-wide and proprietary fund level statements defer bond premiums and discounts and amortize these items over the life of the issue using the effective interest rate method. In the fund level statements, governmental fund types recognize these items in the current period.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Fund Equity

Fund Balance

In the fund financial statements, fund balances are required to be reported according to the following classifications:

1. Nonspendable fund balance represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
2. Restricted fund balance represents amounts constrained to use by either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
3. Committed fund balance includes amounts constrained to specific purposes determined by a formal action (ordinance) of the City itself, using its highest level of decision-making authority (City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint. The City did not have committed fund balances at September 30, 2013.
4. Assigned fund balance amounts are intended to be used by the government for specific purposes but do not meet the criteria to be restricted or committed. The City Council has, by ordinance, authorized the city manager or the Council itself to assign fund balance. Assigned fund balance represents the remaining amount that is not restricted or committed in governmental funds other than the general fund, which is classified as unassigned.
5. Unassigned fund balance is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

The City's policy is to use restricted resources first, then unrestricted resources as they are needed. Within unrestricted fund balance, the committed amount should be used first, assigned amount next, and unassigned amount should be used last.

In 1983 and 1999, the City Council established a fund balance policy to maintain a certain General Fund minimum fund balance for contingencies equal to 60 days of subsequent year budgeted General Fund expenditures (\$12,186,079 at September 30, 2013) and for budget stabilization equal to 25 days of subsequent year budgeted General Fund expenditures (\$5,077,533 at September 30, 2013). As the policy does not meet the criteria to be reported within the restricted or committed fund balance classifications, these amounts are included in the unassigned classification.

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use, either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

M. Fund Equity - Continued

Restricted net position reported in the proprietary funds and government-wide net assets consist of the following:

1. Restricted for Debt Service – Net position legally restricted for the retirement of debt.
2. Restricted for Rate Stabilization – Net position legally restricted under debt covenants for the repayment of debt, if necessary.

See note 17 for additional information on fund balances, including a schedule of September 30, 2013, fund balance classifications.

N. Revenue Recognition - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on the following October 1 and are due and payable at that time. Taxes are collected by the collecting agency beginning September 1. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

For fund financial statements, property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected soon enough after year-end to be used to pay current expenditures. This is approximately sixty days after year-end. All other outstanding receivables are adjusted from revenue and recognized as deferred for future collections. An allowance equal to 4% of the outstanding property taxes at September 30, 2013 has been reported.

General property taxes are limited by Home Rule Charter to \$2.00 per \$100 for assessed valuation. There is no limitation within the \$2.00 ceiling for debt service. The combined tax rate for the year ended September 30, 2013, was \$.51275 per \$100 of assessed valuation, therefore leaving a tax margin of \$1.48725 per \$100 which represented approximate potential property tax revenue of \$66,759,884.

State statutes limit the debt service tax rate to an amount no greater than that needed to meet current year principal and interest requirements, but does provide for an allowance for the uncollected current year's tax levy. The City has adopted a policy to record all delinquent taxes in the General Fund. The effect of accounting for the delinquent taxes in this manner is to maximize the tax revenue earmarked for debt service and is not significant to the financial statements.

O. Federal and State Grants and Entitlements

Grants and entitlements may be accounted for within any of the fund types. The purpose and requirements of each grant or entitlement are carefully analyzed to determine the proper fund type in which to record the related transactions. Grants or entitlements received for purposes normally financed through a particular fund type may be accounted for in that fund type provided that applicable legal restrictions can be appropriately satisfied. Such revenues received for purposes normally financed through the general government are accounted for within the Special Revenue Funds: Housing and Community Development Fund and Other Fund. The recognition of these revenues is expenditure driven.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

P. Use of Estimates

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

Q. Changes in Accounting Principles

For fiscal year 2013, the City implemented Governmental Accounting Standards Board (GASB) Statements Nos. 63 and 65. Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides financial reporting guidance for deferred outflows and inflows of resources, originally introduced and defined in GASB Concepts Statement No.4, *Elements of Financial Statements*, as a consumption of net assets applicable to a future reporting and an acquisition of net assets applicable to a future reporting period, respectively. Further, Concepts Statement No.4 also identifies net position as the residual of all other elements presented in a statement of financial position.

Statement No. 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements:

- Deferred outflows of resources
- Outflows of resources
- Deferred inflows of resources
- Inflows of resources

Concepts Statement No. 4 require that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

R. Restatement of Beginning Net Position

Due to changes in accounting principles described above, beginning net position has been decreased by \$476,919, from \$104,943,024 to \$104,466,105 for governmental activities; and by \$785,744 in both the Water and Sewer Enterprise Fund and in the business-type activities. Beginning net position for the Water and Sewer Enterprise Fund decreased from \$74,026,179 to \$73,240,435, and for the business-type activities decreased from \$83,104,613 to \$82,318,869.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

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

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

The governmental fund balance sheet includes reconciliation between fund balance – total government 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 \$(108,989,535) difference are as follows:

Bonds, Certification of Obligations and Notes Payable	\$ (80,670,000)
Plus Bond Premiums	(3,517,536)
Less Deferred Loss	466,611
Accrued Interest Payable	(215,744)
Landfill Payable	(1,618,416)
Compensated Absences	(7,442,623)
Capital Lease Payable	(2,754,603)
Other Post Employment Benefits Obligation	(5,912,221)
Firemen's Benefit Obligation	(3,422,859)
TMRS Phase-in Liability	<u>(3,902,144)</u>
 Net adjustment to reduce Fund balance - Total	
Governmental Funds to arrive at net position - Governmental Activities	<u>\$ (108,989,535)</u>

Another element of that reconciliation states that “Other long-term assets are not available to pay for current-period expenditures and therefore, are ‘deferred inflows of resources’.” The details of this \$5,060,870 difference are as follows:

Deferred Property Tax Revenue	\$ 1,260,975
Deferred Municipal Court Fines Revenue	2,033,741
Deferred Other Miscellaneous Revenue	<u>1,766,154</u>
 Net adjustment to increase Fund Balance - Total	
Governmental Funds to arrive at net position - Governmental Activities	<u>\$ 5,060,870</u>

- 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 changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$4,220,542 difference are as follows:

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2: RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS –
CONTINUED**

- 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 – Continued

Capital Outlay	\$ 8,658,125
Depreciation Expense	<u>(4,437,583)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 4,220,542</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$10,888,320 difference are as follows:

Donated land, paving and drainage from developers	\$ 11,763,670
Other miscellaneous transactions of capital assets decrease net position in the statement of activities, but do not appear in the governmental funds because they are not uses of financial resources	<u>(875,350)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 10,888,320</u>

Another element of that reconciliation states that 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 position.

Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas premiums and discounts are deferred and amortized in the statement of activities. The details of this \$(51,909,422) difference are as follows:

Capital Lease Proceeds	\$ (289,718)
Certificates of Obligation Issued	(51,335,000)
Premium on Certificates of Obligation Issued	(3,000,508)
Refund of Bond Issuance Costs Paid	(12,991)
Principal repayments on Bonds, Certificates of Obligation and Capital Leases	2,737,129
Amortization of Premium	48,133
Amortization of Deferred Loss	<u>(56,467)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (51,909,422)</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

A. Budgetary Information - Continued

6. Budgets for the General Fund, most Special Revenue Funds, and Debt Service Fund are legally adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Proprietary Funds are included in the annual budget adopted as a financial plan only. The MOUTD Fund does not require a legally adopted budget in the City's budget process as these are grant dollars budgeted on grant periods exceeding or not conferring with the City's fiscal year.
7. All annual appropriations lapse at the end of each fiscal year.
8. The City Council may authorize supplemental appropriations during the year. During the fiscal year ended September 30, 2013, supplemental appropriations in the amount of \$16.7 million for rollover encumbrances were necessary in the General Fund.

B. Excess of Expenditures over Appropriations

For the year ended September 30, 2013, expenditures exceeded appropriations in the General Fund Planning and Inspection Function by \$60,100. The over expenditures in the General Fund were funded by available fund balance and excess current year revenues.

NOTE 4: DEPOSITS AND INVESTMENTS

In order to facilitate cash management and increase income through combined investment activities, the operating cash of certain funds is pooled into one account in a local bank. At September 30, 2013, certain funds have made disbursements from the pooled account in excess of their individual equity in the pooled cash account, which is recorded as a liability (interfund payable) in the financial statements. The City is authorized to use demand accounts and certificates of deposit.

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a fair value of not less than the principal amount of the deposits.

The City's deposits were fully insured or collateralized as required by the state statutes at September 30, 2013. At year-end, the carrying amount of the City's deposits was \$176,015,654 (\$174,898,046 in the Primary Government and \$1,117,608 in the Agency Funds). Of the total, \$52,083,121 was in deposits (including \$3,011,183 in CD's, \$27,388,134 in CDARS CD's and \$18,352,829 in savings) and \$123,932,533 was in investments, and the respective bank balances totaled \$52,694,270. Of the total bank balance, the Federal Depository Insurance Corporation (FDIC) covered \$28,124,613 and \$24,569,657 was covered by collateral held by the pledging bank's agent for the City in the City's name.

Investments – State statutes, city bond ordinances and city resolutions authorize the City's investments. The City is authorized to invest in U.S. Government obligations and its agencies or instrumentalities; direct obligations of this state or its agencies and instrumentalities; other obligations, the principal of and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies or instrumentalities; obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: DEPOSITS AND INVESTMENTS – CONTINUED

rating firm not less than A or its equivalent rating; no-load, SEC registered money market mutual funds with a weighted average stated maturity of 90 days on less fully collateralized repurchase agreements; insured or collateralized certificates of deposit; and local government pools..

The City's investments carried at fair value as of September 30, 2013, are:

	Fair Value	Effective Duration or Weighted Average Maturity	Credit Risk
Investment Pools:			
LOGIC	\$ 3,745,235	59 Days	AAAm - S&P
TEXPOOL	55,695,005	49 Days	AAAm - S&P
TexStar	64,492,293	46 Days	AAAm - S&P
Total Fair Value:	<u>\$ 123,932,533</u>		

Interest Rate Risk—As required by the City's investment policy, the City minimizes the interest rate risk, related to the decline in fair value of securities due to rising interest rates in the portfolio by: 1) limiting the effective duration of security types not to exceed three years with the exception of securities purchases related to reserve funds, 2) structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity, 3) monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act, and 4) investing operating funds primarily in shorter-term securities and government investment pools.

Credit Risk – In compliance with the City's investment policy, as of September 30, 2013, the City minimized credit risk losses due to default of a security issuer or backer, by: 1) limiting investments to the safest types of securities by purchasing investments in US Agencies Notes that were rated AAA, AAA, and Aaa by Standard & Poor's, Fitch and Moody's respectively, 2) pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business, and 3) diversifying the investment portfolio so that potential losses on individual securities were minimized. See Note 8 for disclosure of deposit and investment disclosure for the discretely presented component unit.

NOTE 5: RECEIVABLES

Receivables as of September 30, 2013, for the City's individual major funds, and non-major and all other funds in the aggregate, including applicable allowances for uncollectible amounts, are as follows:

	General	Capital Projects	Water and Sewer	Solid Waste	Ratliff Golf Course	Storm Water	Nonmajor and Other Funds	Total
Receivables:								
Property Taxes	\$ 1,416,227	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,416,227
Sales Taxes	5,722,771	-	-	-	-	-	-	5,722,771
Accounts	10,983,376	40,302	4,433,208	1,067,572	9,867	67,266	2,831	16,604,422
Hotel/Motel Tax	-	-	-	-	-	-	1,282,407	1,282,407
Intergovernmental	-	-	-	-	-	-	159,877	159,877
Gross Receivables	18,122,374	40,302	4,433,208	1,067,572	9,867	67,266	1,445,115	25,185,704
Less: Allowance for								
Uncollectible	(6,838,422)	-	(335,522)	(79,041)	-	(5,452)	-	(7,258,437)
Net Total Receivables	<u>\$ 11,283,952</u>	<u>\$ 40,302</u>	<u>\$ 4,097,686</u>	<u>\$ 988,531</u>	<u>\$ 9,867</u>	<u>\$ 61,814</u>	<u>\$ 1,445,115</u>	<u>\$ 17,927,267</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: RECEIVABLES - CONTINUED

The City reports, in its governmental funds, deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At September 30, 2013, deferred inflows of resources in the amount of \$5,060,870 was reported.

NOTE 6: CAPITAL ASSETS

Capital asset acquisition and disposal of the reporting entity was restricted to activities of the primary government only. Capital asset activity for the year ended September 30, 2013, was as follows:

Primary Government

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 20,185,002	\$ 2,612,003	\$ -	\$ 22,797,005
Construction in Progress	1,130,102	4,122,662	1,068,566	4,184,198
Total Capital Assets, not being depreciated	<u>21,315,104</u>	<u>6,734,665</u>	<u>1,068,566</u>	<u>26,981,203</u>
Capital Assets, being depreciated				
Buildings	28,631,781	277,422	-	28,909,203
Improvements other than buildings	37,552,422	1,291,649	-	38,844,071
Infrastructure	76,847,765	12,402,298	-	89,250,063
Furniture and Office Equipment	440,330	42,365	72,145	410,550
Machinery and Equipment	4,904,746	342,956	519,797	4,727,905
Data Processing Equipment	5,357,295	769,241	603,929	5,522,607
Automotive Equipment	29,925,674	7,737,713	6,454,907	31,208,480
Radio and Communication Equipment	7,201,390	7,410	923,740	6,285,060
Total Capital Assets, being depreciated	<u>190,861,403</u>	<u>22,871,054</u>	<u>8,574,518</u>	<u>205,157,939</u>
Less Accumulated Depreciation for				
Buildings	17,702,937	764,973	-	18,467,910
Improvements other than buildings	14,011,027	1,098,236	-	15,109,263
Infrastructure	52,200,545	2,160,616	-	54,361,161
Furniture and Office Equipment	398,201	20,083	72,145	346,139
Machinery and Equipment	3,743,139	418,053	509,240	3,651,952
Data Processing Equipment	5,085,726	262,557	603,929	4,744,354
Automotive Equipment	21,723,899	4,031,836	6,073,264	19,682,471
Radio and Communication Equipment	5,768,783	161,367	923,740	5,006,410
Total Accumulated Depreciation	<u>120,634,257</u>	<u>8,917,721</u>	<u>8,182,318</u>	<u>121,369,660</u>
Total Capital Assets, being depreciated, net	<u>70,227,146</u>	<u>13,953,333</u>	<u>392,200</u>	<u>83,788,279</u>
Governmental Activities Capital Assets, net	<u>\$ 91,542,250</u>	<u>\$ 20,687,998</u>	<u>\$ 1,460,766</u>	<u>\$ 110,769,482</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: CAPITAL ASSETS – CONTINUED

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Business-type Activities				
Capital Assets, not being depreciated				
Land	\$ 458,208	\$ -	\$ -	\$ 458,208
Construction in Progress	16,916,538	3,801,378	13,344,808	7,373,108
Total Capital Assets, not being depreciated	<u>\$ 17,374,746</u>	<u>3,801,378</u>	<u>13,344,808</u>	<u>7,831,316</u>
Capital Assets, being depreciated				
Buildings	9,327,235	-	-	9,327,235
Improvements other than buildings	78,155,563	3,947,310	-	82,102,873
Infrastructure	123,932,469	23,181,398	-	147,113,867
Furniture and Office Equipment	101,759	-	2,089	99,670
Machinery and Equipment	2,933,805	68,864	136,797	2,865,872
Radio Equipment	3,750	-	-	3,750
Data Processing Equipment	967,900	-	124,647	843,253
Total Capital Assets, being depreciated	<u>215,422,481</u>	<u>27,197,572</u>	<u>263,533</u>	<u>242,356,520</u>
Less Accumulated Depreciation for				
Buildings	5,395,591	259,176	-	5,654,767
Improvements other than buildings	49,163,497	2,659,554	-	51,823,051
Infrastructure	66,958,999	3,688,920	-	70,647,919
Furniture and Office Equipment	98,497	816	2,089	97,224
Machinery and Equipment	2,565,357	92,300	136,797	2,520,860
Radio Equipment	3,750	-	-	3,750
Data Processing Equipment	940,333	13,950	119,430	834,853
Total Accumulated Depreciation	<u>125,126,024</u>	<u>6,714,716</u>	<u>258,316</u>	<u>131,582,424</u>
Total Capital Assets, being depreciated, net	<u>90,296,457</u>	<u>20,482,856</u>	<u>5,217</u>	<u>110,774,096</u>
Business-type Activities Capital Assets, net	<u>\$ 107,671,203</u>	<u>\$ 24,284,234</u>	<u>\$ 13,350,025</u>	<u>\$ 118,605,412</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: CAPITAL ASSETS – CONTINUED

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

Governmental Activities	
General Government	\$ 259,997
Finance	176,917
Public Works	2,240,618
Public Safety	802,743
Cultural and Recreation	957,308
Capital Assets held by government's Internal Service Funds are charged to the various functions based on their usage of assets	4,480,138
 Total Depreciation Expense - Governmental Activities	 \$ 8,917,721
 Business-type Activities	
Water and Sewer	\$ 6,566,193
Solid Waste	5,099
Ratliff Golf Course	143,424
 Total Depreciation Expense - Business-type Activities	 \$ 6,714,716

NOTE 7: RETIREMENT COMMITMENTS

Texas Municipal Retirement System

Plan Description:

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

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System (Continued)

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

	Plan Year 2013	Plan Year 2012
Employee Deposit Rate	7%	7%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility (expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated Service Credit	100 % Repeating, Transfers	100 % Repeating, Transfers
Annuity Increase (to Retirees)	50% of CPI Repeating	50% of CPI Repeating

Contributions:

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

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation / (asset) as of September 30, 2013, are as follows:

Annual Required Contribution (ARC)	\$ 5,043,871
Interest on Net Pension Obligation	364,870
Adjustment to the ARC	<u>(318,837)</u>
Annual Pension Cost (APC)	5,089,904
Contributions Made	<u>(5,029,816)</u>
Increase (Decrease) in Net Pension Obligation	60,088
Net Pension Obligation / (Asset), Beginning of Year	<u>5,210,912</u>
Net Pension Obligation / (Asset), End of Year	<u><u>\$ 5,271,000</u></u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System – Continued

Annual TMRS pension cost, net annual pension obligation (NPO) and related information for the last three fiscal years ended September 30, are as follows:

	2013	2012	2011
Annual Pension Cost	\$ 5,089,904	\$ 5,000,907	\$ 6,010,398
Actual Contributions Made	5,029,816	4,713,140	4,836,329
Net Pension Obligation Increase	\$ 60,088	\$ 287,767	\$ 1,174,069
Net Pension Obligation Balance	\$ 5,271,000	\$ 5,210,912	\$ 4,923,145
Contributions as a % of Annual Pension Cost	98.8%	94.2%	80.5%

The City contributed 98.8%, 94.2%, and 80.5% of the annual pension cost for 2013, 2012, and 2011, respectively. The required contribution rates for the fiscal year 2013 were determined as part of the December 31, 2010 and 2011 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2012, also follows:

Valuation Date	12/31/2012	12/31/2011	12/31/2010
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level % of Payroll	Level % of Payroll	Level % of Payroll
GASB 25 Equivalent Single Amortization Period	25.2 years; closed period	26.2 years; closed period	27.1 years; closed period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-yr Smoothed Mkt.	10-yr Smoothed Mkt.	10-yr Smoothed Mkt.
Actuarial Assumptions:			
Investment Rate of Return *	7.0%	7.0%	7.0%
Projected Salary Increases *	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at Cost-of-Living Adjustments	3.0% 1.5%	3.0% 1.5%	3.0% 1.5%

Funded Status and Funding Progress:

The funded status as of December 31, 2012, the most recent actuarial valuation date, is presented as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Accrued Liability (AAL)	Unfunded AAL Funded (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL Actuarial as a % of Covered Payroll
12/31/12	\$ 171,061,334	\$191,557,767	\$ 20,496,433	89.3%	\$30,839,646	66.5%

Additional information regarding the funding progress can be found immediately following the notes to the financial statements in the “Required Supplementary Information” section, and it contains multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Texas Municipal Retirement System - Continued

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial liabilities and the actuarial value of assets. The schedule of funding progress presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liability of benefits.

Supplemental Death Benefits Fund (SDBF)

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The plan does not issue a stand-alone financial report, but is included within the TMRS Comprehensive Annual Financial Report.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

Contributions:

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 prefund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS-SDBF for the years ended 2013, 2012 and 2011 were \$62,865, \$60,287, and \$73,500, respectively, which equaled the required contributions each year.

Schedule of Contribution Rates:
(RETIREE-only portion of the rate)

Plan/Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2013	0.05%	0.05%	100%
2012	0.05%	0.05%	100%
2011	0.05%	0.05%	100%

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Other Postemployment Health Care Benefits (OPEB)

Plan Description

The City offers postemployment health care and dental benefits to all employees who retire from the City and meet certain age-and service-related requirements. Health care benefits are offered directly by the City. For all retirees except firemen, eligibility for benefits for either option begins upon retirement with 20 years of service or upon retirement at age 60 with at least 5 years of service. For firemen, eligibility for benefits begins upon retirement with 20 years of service at age 50. Medical coverage continues past a members' age 65, but Medicare becomes primary. Eligible retired employees participating in the Plan pay their premiums directly to the City. The City of Odessa paid benefits of \$1,249,693 for fiscal year 2013.

GASB Statement No. 45 requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program, dental benefits, and a preferred care program. The health care benefits cover medical and hospitalization costs for retirees and their dependents. If the retiree is eligible for Medicare, City coverage is secondary. The authority under which the Plan's benefit provisions are established or amended is the City Council. Recommendations for modifications are brought to the Council by the Family Health Benefit Pool Committee. Any amendments to the obligations of the plan members or employer to contribute to the plan are brought forth by the Family Health Benefit Pool Committee and approved by the Council.

Participants included in the actuarial valuation include retirees and survivors, and active employees who may be eligible to participate in the Plan upon retirement. Expenditures for postretirement health care and other benefits are recognized monthly and financed on a pay-as-you-go basis. The City funded approximately 40% of the postretirement healthcare and other benefit costs, which totaled \$1,249,693 for fiscal year ended September 30, 2013. The retirees were responsible for funding approximately 60% of the healthcare and other benefit costs. The City accrued an additional \$614,180 in retiree healthcare expenses during fiscal year 2013.

The Plan does not issue a stand-alone financial report. For inquiries relating to the Plan, please contact Darrell Wells, City of Odessa, P.O. Box 83, Odessa, Texas, 79764.

The required schedule of funding progress immediately following the notes to the financial statements in the "Required Supplementary Information" section presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial Note accrued liability for benefits. As of September 30, 2013:

Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded/ (Overfunded) AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
9/30/13	\$ -	\$ 11,880,732	\$ 11,880,732	0%	\$ 44,387,012	26.8%

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Other Postemployment Health Care Benefits (OPEB) – Continued

Determination of Annual Required Contribution (ARC) and End of Year Accrual

<u>Cost Element</u>	<u>Fiscal Year Ending September 30, 2013 Amount</u>	<u>Percent of Payroll ¹</u>
1. Unfunded actuarial accrued liability at October 1, 2013	\$ 11,880,732	26.8%
<u>Annual Required Contribution (ARC)</u>		
2. Normal Cost	\$ 562,063	
3. Amortization of the unfunded actuarial accrued liability over 30 years using open amortization	623,008	
4. Annual Required Contribution (ARC = 2 + 3)	<u>\$ 1,185,071</u>	2.7%
<u>Annual OPEB Cost (Expenses)</u>		
5. ARC	\$ 1,185,071	
6. Interest on beginning of year CAFR accrual	222,572	
7. Amortization of beginning of year CAFR accrual	(378,515)	
8. Fiscal 2013 OPEB cost (5 + 6 - 7)	<u>\$ 1,029,128</u>	2.3%
<u>End of Year CAFR Accrual (Net OPEB Obligation) ²</u>		
9. Beginning of year CAFR accrual	\$ 7,415,488	
10. Annual OPEB cost	1,029,128	
11. Employer contribution (benefit payments)	(414,948)	
12. End of year CAFR accrual (9 + 10 - 11) ²	<u>\$ 8,029,668</u>	18.0%

¹ Annual payroll for the 787 active plan participants as of October 1, 2013 was \$44,387,012.

² Actual benefits and administrative fees paid in fiscal year 2013 of \$1,249,693 less participant contributions of \$834,745. Employer contributed 40.3% of annual OPEB cost during fiscal year 2013.

Schedule of Employer Contributions

<u>Fiscal Year Ended</u>	<u>Annual Required Contributions</u>	<u>Actual Contributions ³</u>	<u>Percentage Contributed</u>
September 30, 2013	\$ 1,185,071	\$ 414,948	35.0%
September 30, 2012	1,274,623	299,941	23.5
September 30, 2011	1,536,888	246,964	16.1

³ Since there is no funding, these are actual benefit payments of \$1,249,693 less retiree contributions of \$834,745 for 2013. For 2012, actual benefit payments were \$1,029,448 and retiree contributions were \$729,507.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Other Postemployment Health Care Benefits (OPEB) – Continued

Note: The annual required contribution (ARC) of \$1,185,071 for fiscal year 2013 and CAFR accrual of \$8,029,668 as of September 30, 2013, are based on a current decision not to fund in a segregated GASB qualified trust.

Three-Year Schedule of Percentage of OPEB cost contributed

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
September 30, 2013	\$ 1,029,128	40.3%	\$ 8,029,668
September 30, 2012	1,136,936	26.4	7,415,488
September 30, 2011	1,423,340	17.4	6,578,493

Summary of Key Actuarial Methods and Assumptions

Valuation Year	October 1, 2012 – September 30, 2013
Actuarial Cost Method	Projected Unit Credit Cost Method
Amortization Method	30 years, level dollar open amortization ⁴
Asset Valuation Method	N/A

⁴ Open amortization means a fresh-start each year for the cumulative unrecognized amount.

Actuarial assumptions:

Discount Rate	3.0%
Inflation Rate	3.5%
Projected payroll growth rate	N/A
Health care cost trend rate for Medical and prescription drugs	6.5% in fiscal year 2013, and then decreasing by one-half percentage point per year to an ultimate of 4% in fiscal year 2018 and thereafter.

General Overview of the Valuation Methodology

The estimation of the retiree healthcare benefit obligation is generally based on per participant contributions developed from recent periods for which claims experience is available. The City provided actual claims for 2007-2012.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Calculations are based on the types of benefits provided under the terms of the Plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Other Postemployment Health Care Benefits (OPEB) – Continued

General Overview of the Valuation Methodology – Continued

Actuarial calculations reflect a long-term perspective. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Date of Census Data October 1, 2019 **Actuarial Cost Method** Projected Unit Credit actuarial cost method; **Unfunded Actuarial Liability (UAL)** amortized on a level dollar basis over 30 years.

Annual Health Care Trend Rate Medical and Fiscal Rx Combined

<u>Year</u>	<u>Rate</u>
2012	5.5%
2013	5.0
2014	4.5
2015	4.0

Discount Rate 3.00% per annum

Spouse Age Difference Husbands are assumed to be three years older than wives for current and future retirees who are married

Mortality IRS 2008 Combined Static Mortality Table

Participation Rates Active employees are assumed to elect spousal coverage, where applicable.

Retirement Rates

Employees are assumed to retire according to the following schedule:

<u>Age</u>	<u>Male Retirement Rates</u>	<u>Female Retirement Rates</u>
55-59	5.0%	5.0%
60	17.5%	30.0%
61	15.0%	14.0%
62	45.0%	35.0%
63	25.0%	20.0%
64	25.0%	16.0%
65	100.0%	100.0%

Sample Withdrawal and Disability Rates

Employees are assumed to terminate or become disabled according to the following percentages:

<u>Service</u>	<u>Male Termination Rates</u>	<u>Female Termination Rates</u>
0	23.0%	23.3%
3	10.1%	13.5%
6	6.4%	8.8%
9	3.9%	5.0%
12	2.5%	2.1%
15	1.8%	1.4%
18	1.6%	1.1%

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Firefighters’ Relief and Retirement Fund

Plan Description:

The Board of Trustees is the administrator of the Odessa Firefighters’ Relief and Retirement Fund (“OFRRF”), a single-employer defined benefit pension plan. The Odessa Firefighters’ Relief and Retirement Fund is a separate legal entity and issues its own audited financial statements which may be obtained by writing the Odessa Firefighters’ Relief and Retirement Fund Board of Trustees, P.O. Box 4398, Odessa, Texas 79760.

Additionally, the Fund has single entity actuarial valuations performed as of December 31 in even numbered years. The last actuarial valuation report available is for the year ended December 31, 2012. A degree of financial dependence upon the City does exist to the extent the City makes contributions to the Fund equal to a percentage of the participant’s pay – 15.15% for 2013 and 15.49% for 2012.

In the City’s professional judgment, this dependence is not sufficient to warrant inclusion of the Fund’s activities within the City’s basic financial statements.

Firefighters in the Odessa Fire Department are covered by the Odessa Firefighters’ Relief and Retirement Fund. The table below summarizes the membership of the fund at December 31, 2012:

	<u>December 31, 2012</u>
Retirees and beneficiaries currently receiving benefits and	
Terminated employees entitled to benefits but not yet receiving	166
Current employees	
a. Vested	75
b. Nonvested	<u>91</u>
TOTAL	<u>332</u>

The Odessa Firefighters’ Relief and Retirement Fund provides service retirement, death, disability and withdrawal benefits. These benefits become fully vested after 20 years of credited service. Employees may retire at age 50 with 20 years of service. A partially vested benefit is provided for employees who terminate employment with at least 10 but less than 20 years of service. Employees are also eligible for immediate actuarially reduced early retirement benefits upon completion of 20 years of service. The monthly benefit at normal retirement, payable in a joint and 2/3 to spouse form of annuity, is equal to 72% of highest 60-monthly average salary plus \$107 per month for each whole year of service in excess of 20 years.

This plan of benefits, which is described as the "New Plan", became effective October 1, 2000. Firefighters retiring after age 50 with 20 years of service are eligible for a supplemental benefit of \$500 per month for life of member/eligible surviving spouse. Also, a change in the Cost of Living Adjustment (COLA) was made to increase the COLA to one percent with a minimum of \$37. The plan also provides for an optional “DROP” benefit. A partially vested benefit is provided for employees who terminate employment with at least 10, but less than 20 years of service. These partially vested employees are permitted to draw a reduced, but actuarially equivalent benefit prior to the date the member would have had 20 years of service or the member reached age 50, whichever occurs later.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Firefighters' Relief and Retirement Fund – Continued

A member drawing a benefit under this proposal is not eligible for supplemental benefits or for COLA benefits. Employees are also eligible for immediate actuarially reduced early retirement benefits upon completion of 20 years of service. Odessa firefighters are required to contribute 15.00% of their pay to the fund. The City is required to make contributions which will equal the effective matching requirement of TMRS. This rate for 2013 was 15.15% and for 2012 was 15.49%. The benefit and contribution provisions of this plan are authorized by the Texas Local Firefighters Retirement Act (TELFRA).

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the Fund must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. This financing arrangement includes consideration of the Fund's funding status on a going-concern basis and progress made in accumulating sufficient assets to pay benefits when due.

Using the entry age actuarial cost method, the plan's normal cost is determined as a percentage of payroll. The excess of the total contribution rate over the normal cost rate is used to amortize the plan's unfunded actuarial accrued liability, and the number of years needed to amortize the plan's unfunded actuarial accrued liability is determined using a level percentage of payroll method.

Actuarial valuations are performed every two years. For years in which actuarial valuations are not performed, estimates are made using the actuarial methods and principles.

Basis of Accounting:

The Odessa Firefighters' Relief and Retirement Fund financial statements are prepared using the accrual basis of accounting with a December 31 year-end. Employee and employer contributions are recognized as revenues in the period in which they are received by the Fund for benefit purposes, but reported as accrued in the audited statements. Benefits paid are recognized in the period paid.

Method Used to Value Investments:

The Odessa Firefighters' Relief and Retirement Fund's investments are reported at fair value. Investment income is recognized as earned.

Summary of Significant Accounting Policies and Plan Asset Matters:

In accordance with the policy of stating investments at fair value, the amount reflected as the net appreciation (depreciation) in fair value represents the net changes in fair values from the beginning of the year or date of purchase (whichever is later) to the end of the year, adjusted for securities sold during the year. The Fund has no single investment that represents 5% or more of the Fund's net assets. The Odessa Firefighters' Relief and Retirement Fund adopted the current plan effective December 19, 2002.

Funding Status and Progress:

The Fund is required by statute to conduct actuarial studies every two years and conducted the last study December 31, 2012, for the plan in effect at that time. The following disclosures relative to the funding and progress of the plan are made for the plan in effect and the plan year ended December 31, 2012. The funding policy of the Fund requires contributions equal to 15.00% of pay by the firefighters and 15.15% of pay by the City of Odessa.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: RETIREMENT COMMITMENTS – CONTINUED

Firefighters’ Relief and Retirement Fund – Continued

The schedule of funding progress immediately following the notes to the financial statements in the “Required Supplementary Information” section presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. As of September 30, 2013:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL Funded (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
12/31/12	\$ 42,756,974	\$ 87,585,700	\$ 44,828,726	48.80%	\$ 9,518,672	471.0%

Annual Odessa Firefighters’ Relief and Retirement Fund pension cost, net pension obligation (NPO) and related information for the last three fiscal years is as follows:

	2013	2012	2011
Annual Required Contribution ARC	<u>\$ 3,094,934</u>	<u>\$ 2,143,523</u>	<u>\$ 2,682,289</u>
Annual Pension Cost	3,094,934	2,143,523	2,682,289
Contributions Made	<u>1,573,344</u>	<u>1,477,045</u>	<u>1,447,498</u>
Change in Net Pension Obligation	1,521,590	666,478	1,234,791
NPO, Beginning of Year	<u>1,901,269</u>	<u>1,234,791</u>	-
NPO, End of Year	<u>\$ 3,422,859</u>	<u>\$ 1,901,269</u>	<u>\$ 1,234,791</u>
Contributions as a % of Annual Pension Cost	50.8%	68.9%	54%

Actuarial valuation date	January 1, 2013	January 1, 2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Open method	Open method
Asset valuation method	Level percentage of payroll 5-Year Smoothed market values	Level percentage of payroll 5-Year Smoothed market values
Amortization period for ARC	30 years	30 years
Amortization period for UAAL		71 years
Actuarial assumptions:		
Investment rate of return	8.25%	8.5%
Inflation rate	3.0%	3.5%
Cost-of-living adjustments	1%	1%
Projected salary increases	4.5% per year	4.5% per year

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION

The financial report of the Odessa Development Corporation can be obtained or reviewed by writing to Odessa Development Corporation, Treasurer, P.O. Box 4398, Odessa, Texas, 79760.

A. Significant Accounting Policies

1. Definition and Nature of Entity

The Odessa Development Corporation, (“the Corporation”) is a quasi-governmental organization created on December 1, 1997 as a public instrumentality and non-profit industrial development corporation under provisions of the Development Corporation Act of 1979 of the State of Texas, and is funded by a ¼ percent sales tax.

The Corporation is governed by a five-member Board of Directors appointed by the City Council, and the Corporation's annual operating budget, as well as projects undertaken by it, is subject to approval by the City Council. Because of this oversight responsibility, the Corporation is considered to be a component unit of the City of Odessa, and in accordance with Governmental Accounting Standards Board (GASB) its financial affairs are included in the City's comprehensive annual financial report as a discretely-presented entity. Based on the nature of its major revenues, it is included in the City's governmental funds presentation.

The purpose of the Corporation is to promote and develop industrial and manufacturing enterprises in order to eliminate unemployment and underemployment, and to promote and encourage employment and the public welfare of, for, and on behalf of the City, and to do any and all projects authorized by section 4A of the Development Corporation Act.

2. Government-Wide and Fund Financial Statements

The basic financial statements of the Corporation are presented at two basic levels, the government-wide level and the fund level. These statements focus on the Corporation as a whole at the government-wide level and on the major fund at the fund level whereas financial statements prior to GASB No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, focused on reporting by fund type. The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of activities of the Corporation. There is no interfund activity in the Corporation's statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are the only reported activities.

The government-wide statement of net position reports all financial and capital resources of the Corporation and is presented in an “assets minus liabilities equal net position” format with net position reported in the order of relative liquidity. Also, assets and liabilities are presented in relative order of liquidity with liabilities which have an average maturity of more than one year separated into the amount due within one year and the amount due in more than one year.

The government-wide statement of activities identifies the relative financial burden of each of the Corporation's functions on the taxpayers by identifying direct expenses and the extent of self-support through program revenues. Direct expenses are clearly identifiable expenses that can be specifically associated with a function. Program revenues are revenues derived directly from the function or from other sources which reduce the net cost of the function to be financed from

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

A. Significant Accounting Policies – Continued

2. Government-Wide and Fund Financial Statements - Continued

general government revenues. Program revenues are 1) charges to customers who purchase, use, or directly benefit from services provided by a function and which are generated by that function, 2) grants and contributions restricted to operating requirements of a function and, 3) grants and contributions restricted to capital requirements of a function. The Corporation had no program revenues for the 2013 year. Items such as taxes, investment earnings and non-specific grants are not included as program revenues but are instead reported as general revenues which normally cover the net cost of a function.

Fund level financial statements are presented for the governmental fund, with a focus on the major fund. A major fund is defined by GASB Statement No. 34, paragraph 76, as amended by GASB Statement No. 37, paragraph 15, as a fund meeting certain specific asset, liability, revenue, or expenditure/expense criteria relative to all funds of that type and relative to the total for all governmental and enterprise funds combined.

A budgetary comparison schedule for the General Fund is included in the RSI – required supplementary information of the Corporation’s financial statements.

3. Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Exchange and exchange-like transactions, transactions in which the Corporation gives or receives value and receives or gives equal value, that create revenues, expenses, gains, losses, assets or liabilities are recognized when the exchange occurs. Nonexchange transactions, transactions in which the Corporation gives or receives value without receiving or giving equal value in exchange, that result in revenues, expenses, gains, losses, assets or liabilities are recognized in accordance with GASB No. 33, “Accounting and Financial Reporting for Nonexchange Transactions”, as amended by GASB Statement Nos. 34 and 36, “Recipient Reporting for Certain shared Nonexchange Revenues.” The treatment of Nonexchange transactions is grouped in four classes based upon the principal characteristics of the transaction and reported according to those characteristics.

Government fund financial statements are reported using a current financial resources measurement focus and modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In the case of sales taxes, available means due within the current period and collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days. Expenditures are generally recorded when a fund liability is incurred.

Governmental fund level revenues, which have been accrued based upon the susceptible to accrual concept, are sales taxes.

The only major fund used by the Corporation is the General Fund. As the only operating unit of the Corporation; this fund accounts for the major activities of the Corporation’s, collection of sales tax revenues and payment of contractual expense items.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

A. Significant Accounting Policies – Continued

4. Use of Estimates

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

5. Budget

The annual budget is legally adopted by the Corporation's Board and is prepared on a basis consistent with accounting principles generally accepted in the United States of America. At least sixty days prior to the commencement of each fiscal year of the Corporation, the Board shall adopt a proposed budget of expected revenues and proposed expenditures for the next ensuing fiscal year. The budget shall contain such classifications and shall be in such form as may be prescribed by the Council. The budget shall not be effective until the same has been approved by the Council. Expenditures may not exceed the appropriation of the adopted annual operating budget. Supplemental appropriations during the year must be approved and adopted by the Corporation's Board and the City Council.

6. Investments

In accordance with GASB 31, the Corporation's investments are stated at fair value, except for external investment pools.

The Corporation utilizes the following methods and assumptions:

- a) Fair value is based on quoted market prices as of the valuation date;
- b) The portfolio did not hold investments in any of the following:
 - 1) Items required to be reported at amortized cost,
 - 2) Items subject to involuntary participation in an external pool,
 - 3) Items associated with a fund other than the funds to which the income is assigned;
- c) The portfolio did hold investments in external pools that are not SEC registered. The external investment pool is TexPool. The State Comptroller of Public Accounts exercises oversight over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.
- d) The gain/loss resulting from valuation will be reported within the "Investment Income" account on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

A. Significant Accounting Policies – Continued

7. Sales Taxes

Sales taxes are recognized as receivable and revenue in the period when the exchange transaction imposed occurs on the accrual basis and when measurable and available under the modified accrual basis. Sales taxes accrued are considered available.

8. Income Taxes

Because the Corporation is wholly-owned by the City of Odessa and its revenues are related to its public purpose, any net revenues of the Corporation are exempt from federal income tax under the Internal Revenue Code of 1986, as amended.

9. Net Position/Fund Balances

The Corporation reports its fund balances under GASB No. 54, *Fund Balance, Reporting and Governmental Fund Type Definitions*, for the governmental fund. Under GASB 54, fund balances are required to be reported according to the following classifications:

Nonspendable Fund Balance – Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. The Corporation has no nonspendable fund balance at September 30, 2013.

Restricted Fund Balance – Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation). The Corporation has no restricted fund balance at September 30, 2013.

Committed Fund Balance – Amounts that can only be used for specific purposes because of a formal action (resolution) by the Board – the highest level of decision-making authority. This classification includes incentive agreements, grants and a water desalination project.

Assigned Fund Balance – Amounts that are constrained by the Corporation's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. The Corporation has no assigned fund balance at September 30, 2013.

Unassigned Fund Balance – This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance.

The Corporation's policy is to use restricted resources first, then unrestricted resources as they are needed. Within unrestricted fund balance, the committed amount should be used first, assigned amount next and unassigned amount used last.

The government-wide financial statements utilize a net position presentation. Net position is categorized as unrestricted net position.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

B. Reconciliation of Government-Wide and Fund Financial Statements

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:
 - There are no differences between the governmental fund balance sheet and the government-wide statement of net position. The nature of the other assets and liabilities which were reported at the government-wide level are such that they also met the criteria for reporting at the fund level.
2. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities:
 - There are no differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities because the nature of the revenues and expenses which were accrued at the government-wide level were such that they also met the criteria for accrual at the fund level.

C. Cash and Investments

As further described in Note F, the City of Odessa serves as the Corporation's fiscal agent. Under the arrangement, the Corporation's cash and investments are accounted for by the City as an agency fund, and its uninvested cash (if any) is held in the City's depository in the City's name as agent for the Corporation. As required by the Revised Statutes of the State of Texas, all of the City's deposits, to the extent not insured by federal depository insurance, are collateralized by securities held by an independent third party agent in the City's name under a joint custody arrangement giving the City unconditional rights and claims to the collateral.

At year-end, the carrying amount of the Corporation's cash and investments were \$21,095,201, of which \$6,038,734 was held in investments in TexPool, and \$6,025,476 was held in a high yield savings account at a local bank, and \$9,030,991 was held in certificates of deposit. The fair value amount (\$6,038,734) held in Texpool had a weighted average maturity of 49 days and was rated AAAM by Standards & Poor. The high yield savings account was entirely covered by federal depository insurance or collateralized with securities held by the pledging financial institution's agent in the Corporation's name.

The Corporation's investments are administered by City management under terms of an investment policy and strategy that has been updated to conform to the latest amendments to the Texas Public Funds Investment Act. The Corporation is authorized to invest in the same investments as the City, which is disclosed in Note 4. At September 30, 2013, 29% of the Corporation's investments were in an external investment pool, TexPool.

D. Receivables

Receivables of \$1,430,692 as of year-end for the government's individual major fund were entirely from sales tax and the Corporation does not anticipate any uncollectible accounts as of September 30, 2013.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

E. Concentrations of Risk

As described in Note A, the Corporation's funding is dependent upon ¼ percent sales tax assessed on retail sales within the city limits of the City of Odessa. This revenue source is subject to the normal economic fluctuations experienced by the City and the surrounding region.

As described in Note C, the Corporation's cash and investments, which were in the total amount of \$21,095,201 at September 30, 2013, are held at TexPool, JP Morgan Chase Bank, Compass Bank, AIM Bank, and Western National Bank.

F. Transactions with Municipality

The City of Odessa serves as fiscal agent for the Corporation, furnishing accounting, investment management, and data processing services under a contract, which provides that the City will be reimbursed for its cost of providing the services. The City will also prepare and provide space and information for the Corporation's board meetings. Fees charged under this agreement, are \$3,682 per month and for the period ended September 30, 2013, the Corporation paid the City \$44,184.

G. Commitments

The Corporation entered into a contract with the Odessa Chamber of Commerce to provide economic development services (referred to as the "Economic Development Program") in accordance with the General Development Plan, as prepared by the Corporation. The Corporation paid the Chamber \$700,472 for the current year, paid in equal quarterly installments. The Chamber contributed certain in-kind services as provided in the contract. The Corporation received a \$33,144 refund in the current year for the 2011-2012 contract. The contract period began October 1, 2012 and terminated on September 30, 2013, whereby a new annual contract began with essentially the same provisions.

The Corporation entered into a contract with MOTRAN Alliance, Inc. to provide economic development services in accordance with the General Development Plan. The Corporation paid MOTRAN \$67,000 for the current year, paid in equal quarterly installments. The Corporation received a \$703 refund from MOTRAN in the current year for the 2011-2012 contract period. The contract period began October 1, 2012 and terminated September 30, 2013, whereby a new annual contract began with essentially the same provisions.

The Corporation entered into a contract with the Odessa Hispanic Chamber of Commerce (OHCC) to provide economic development services in accordance with the General Development Plan. The Corporation paid OHCC \$45,000 for the current period, paid in equal quarterly installments. The contract period began October 1, 2012 and terminated September 30, 2013, whereby a new annual contract began with essentially the same provisions.

In September 2012, The Corporation entered into an agreement with the City of Odessa for a test water well and study (referred to as "Desal Water Project"). The agreement was amended during 2013 to increase the amount to \$3,000,000. The Corporation paid \$817,000 to the City in the current year and will pay the remaining amount of \$2,183,000 to the City of Odessa after receipt of invoices and other documentation from the City of Odessa showing reasonable and necessary cost incurred in the project.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8: DISCRETE COMPONENT UNIT - ODESSA DEVELOPMENT CORPORATION – CONTINUED

H. Contingencies

The Corporation has entered into business incentive agreements/training grants with multiple entities, both in the current year and since inception. The agreements require the Corporation to pay incentives/grants upon the completion of certain transactions, which may or may not correspond to the entity's earnings of those incentives/grants. Based on accrual and modified accrual accounting, these expenditures are recorded by the Corporation when paid out. If the entities fail to meet their requirements, the agreement states that the entities will refund incentive/training dollars back to the Corporation. At September 30, 2013, the Corporation was committed for \$4,237,177, for incentive agreements signed but not yet completed on the part of the entities.

NOTE 9: JOINT VENTURE

The Midland-Odessa Urban Transit District (MOUSD), created by the cities of Odessa and Midland, incurred start-up costs and purchased buses and other vehicles prior to September 30, 2003. During the year ended September 30, 2004 the MOUSD began operating the bus routes. Federal and state grants were obtained to cover the start-up costs and purchases of buses and vehicles, and to provide for operating expenses. An annual audit was performed as of September 30, 2013, and can be obtained from the MOUSD. For the year ended September 30, 2013, the cities had contributed money to the MOUSD in the amount of \$500,000. Both cities have budgeted contributions to the MOUSD, but do not have an equity interest. As of September 30, 2013, the MOUSD had net assets of \$10,390,072 of which \$10,250,344 represented "Investment in Capital Assets." The financial report of the Midland-Odessa Urban Transit District can be obtained by writing to 8007 East Highway 80, Odessa, Texas 79765.

NOTE 10: DEFERRED COMPENSATION PLAN

The City of Odessa offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The supplementary retirement plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

In prior years the Internal Revenue Code specified that the plan's assets were the property of the City until paid or made available to participants, subject only on an equal basis to the claims of the City's general creditors. Therefore, the plan's assets were recorded in the Agency Fund. A 1996 federal law now requires all assets and income of Internal Revenue Code Section 457 deferred compensation plans to be held in trust, custodial accounts, or annuity contracts for the exclusive benefit of the participants and their beneficiaries. Assets of the City's plan are administered by private administrators under contract with the City. The City added endorsements to the plan's contracts as of October 13, 1998 to comply with the new federal law. Consequently, the plan's assets and liabilities have been removed from the City's financial statements for all subsequent years.

NOTE 11: FLEXIBLE BENEFITS PLAN

The City of Odessa established a Medical Reimbursement Plan for its employees. This plan is intended to constitute a "cafeteria plan" under Section 125 of the Internal Revenue Code. Under this plan, each employee will be eligible to have a portion of his/her family's uninsured medical expenses reimbursed on a tax-free basis. The plan is available to all employees who have completed one year of service and work at least 40 hours per week. The maximum reimbursement allowed under this plan is the lesser of (a) the amount the employee has earmarked for medical payments, or (b) five percent of his/her gross salary.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 11: FLEXIBLE BENEFITS PLAN (CONTINUED)

The City of Odessa has also established a Dependent Care Assistance Plan for its employees. Under this plan, each employee will be eligible to have a portion of his/her family's dependent care expenses reimbursed on a tax-free basis. The plan is available to all employees who have completed 30 days of service and work at least 40 hours per week. The maximum reimbursement allowed under this plan is the lesser of (a) the amount the employee has earmarked for dependent care, (b) \$5,000, or (c) the amount earned by the participant's spouse.

NOTE 12: INTERFUND TRANSACTIONS

During the course of normal operations, the City of Odessa has numerous transactions between funds including expenditures and transfers of resources primarily to provide services. The governmental and proprietary type funds' financial statements generally reflect such transactions as transfers. The internal service funds record charges for service to City departments as operating revenue. All City funds record these payments to the internal service funds as operating expenses. The proprietary funds record operating subsidies as other income whereas the fund paying the subsidy records it as either an expenditure or transfer. The purpose of the interfund balances is to track amounts owed between funds for short-term loans between funds and unpaid amounts for arms length transactions between funds for goods and services. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to spend them; and to use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Individual fund interfund receivable and payable balances at September 30, 2013, arising from these transactions were as follows:

	Interfund	
	Receivables	Payables
Governmental Funds		
General Fund	\$ 251,148	\$ 300,633
Capital Projects Fund	-	9,500
Non-Major Government Funds		
Housing and Community Development	-	186,601
Other	-	55,047
Internal Service Funds		
Equipment Service Fund	300,633	-
	<u>\$ 551,781</u>	<u>\$ 551,781</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 12: INTERFUND TRANSACTIONS - CONTINUED

Interfund transfers for the year ended September 30, 2013, are as follows:

	Interfund	
	Transfers In	Transfers Out
Governmental Funds		
General Fund	\$ -	\$ 223,974
Non-Major Governmental Funds		
Special Revenue Funds-Other	26,654	2,680
Enterprise Funds		
Ratliff Golf Course Fund	200,000	-
	<u>\$ 226,654</u>	<u>\$ 226,654</u>

NOTE 13: LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES:

The following is a summary of debt transactions for governmental activities of the City for the year ended September 30, 2013:

	Balance, October 1, 2012	Additions	Reductions	Balance, September 30, 2013	Due Within One Year
Certificates of Obligation :					
Series 2004	110,000	-	110,000	-	-
Series 2005	4,645,000	-	135,000	4,510,000	140,000
Series 2006	8,075,000	-	415,000	7,660,000	435,000
Series 2007	4,225,000	-	40,000	4,185,000	45,000
Series 2013	-	51,335,000	-	51,335,000	1,820,000
General Refunding Bond:					
Series 2006	4,805,000	-	515,000	4,290,000	540,000
General Obligation Refunding:					
Series 2009	2,380,000	-	300,000	2,080,000	315,000
Series 2012	6,780,000	-	170,000	6,610,000	290,000
Unamortized Premiums:					
Series 2007	127,221	-	8,481	118,740	-
Series 2009	36,995	-	5,285	31,710	-
Series 2012	400,945	-	34,367	366,578	-
Series 2013	-	3,000,508	-	3,000,508	-
Deferred Loss on Refundings:					
Series 2006	(173,892)	-	(173,892)	-	-
Series 2009	(47,740)	-	(47,740)	-	-
Series 2012	(301,446)	-	(301,446)	-	-
Capital Lease Payable	3,517,014	289,718	1,052,129	2,754,603	1,157,018
Compensated Absences	8,055,431	2,271,768	2,388,310	7,938,889	2,388,309
Landfill Closure/Post-Closure	1,623,462	-	5,046	1,618,416	100,000
Other Post Employment					
Benefits Obligation	5,797,104	483,218	-	6,280,322	-
Firemen's Benefit Obligation	1,901,269	1,521,590	-	3,422,859	-
TMRS Phase-in Liability	4,108,945	51,436	-	4,160,381	-
	<u>\$ 56,065,308</u>	<u>\$ 58,953,238</u>	<u>\$ 4,655,540</u>	<u>\$ 110,363,006</u>	<u>\$ 7,230,327</u>

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13: LONG-TERM DEBT – CONTINUED

CERTIFICATES OF OBLIGATION

September 30, 2013

<p>\$5,400,000 Certificates of Obligation Bonds due in annual installments from March 1, 2005 through March 1, 2016; interest rates 3.5 - 4.5% -Construction of improvements to City parks, construction of drainage, paving, curb and gutter, and street improvements.</p>	\$	4,510,000
<p>\$10,150,000 Certificates of Obligation Bonds due in annual installments from March 1, 2007 through March 1, 2026; interest rates 4.0% –Construction of improvements to City parks; constructing and equipping 3 fire stations and acquisition of land thereof; improvements to City's public safety radio system; improvments to municipal golf course.</p>		7,660,000
<p>\$4,345,000 Certificates of Obligation Bonds due in annual installments from September 30, 2008 through September 30, 2027; interest rates 4.0 - 5.0% – Developing park facilities; constructing and installing traffic signals; constructing drainage, cubs, gutters and paving streets.</p>		4,185,000
<p>\$51,335,000 Certificates of Obligation Bonds due in annual installments from March 1, 2014 through March 1, 2033; interest rates 4.2-4.9% - Construction of improvements to City parks, drainage improvements, paving, curb and gutter improvements, and street improvements.</p>		51,335,000

BONDS

<p>\$5,905,000 General Obligation Refunding Bonds Series 2006 due in annual installments beginning March 1, 2008 through March 1, 2020; effective interest at 4.00%</p>		4,290,000
<p>\$3,280,000 General Obligation Refunding Bonds Series 2009 due in annual installments beginning March 1, 2009 through March 1, 2019; effective interest at 3.39%</p>		2,080,000
<p>\$6,780,0000 General Obligation Refunding Bonds Series 2012 due in annual installments beginning March 1, 2013 through March 1, 2024; effective interest at 3.22%</p>		6,610,000

Currently, principal payments are due annually for all bonds on March 1 and interest payments are due semi-annually on March 1 and September 1. Governmental accrued compensated absences will be liquidated by the general fund and the special revenue funds.

At September 30, 2013, the City still held unspent bond proceeds of \$54,634,528.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13: LONG-TERM DEBT – CONTINUED

The annual requirements to amortize general bonded debt outstanding as of September 30, 2013, are as follows:

Year Ending September 30	Certificates of Obligation		
	Principal	Interest	Total
2014	\$ 2,440,000	\$ 2,901,752	\$ 5,341,752
2015	2,355,000	2,985,974	5,340,974
2016	2,455,000	2,910,444	5,365,444
2017	2,540,000	2,835,809	5,375,809
2018	2,765,000	2,736,139	5,501,139
2019-2023	17,865,000	11,357,142	29,222,142
2024-2028	19,580,000	6,643,070	26,223,070
2029-2033	17,690,000	2,299,500	19,989,500
	<u>\$ 67,690,000</u>	<u>\$ 34,669,830</u>	<u>\$ 102,359,830</u>

Year Ending September 30	Bonds		
	Principal	Interest	Total
2014	\$ 1,145,000	\$ 427,850	\$ 1,572,850
2015	1,190,000	389,438	1,579,438
2016	1,325,000	346,900	1,671,900
2017	1,405,000	300,500	1,705,500
2018	1,510,000	251,300	1,761,300
2019-2023	5,540,000	578,275	6,118,275
2024	865,000	17,300	882,300
	<u>\$ 12,980,000</u>	<u>\$ 2,311,563</u>	<u>\$ 15,291,563</u>

The ordinances authorizing the issuance of general obligation bonds created an interest and sinking fund (General Debt Service Fund). The ordinances require the City to ascertain a rate and amount of ad-valorem tax which will be sufficient to pay interest as it comes due and provide a reserve fund which is adequate to meet principal as it matures. The bonds have various call options whereby they may be redeemed during certain periods prior to maturity. There are a number of limitations and restrictions contained in the various bond indentures. The City was in compliance with all significant limitations and restrictions.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13: LONG-TERM DEBT – CONTINUED

Business-type Activities:

	Balance October 1, 2012	Additions	Reductions	Due Balance September 30, 2013	Within One Year
\$12,830,000 General Obligation Refunding Bonds - Series 2006 (Water & Sewer Fund portion) due in annual installments beginning March 1, 2008 through March 1, 2020; effective interest at 4.00%	\$ 9,605,000	\$ -	\$ 3,070,000	\$ 6,535,000	\$ 3,205,000
Unamortized Premium on General Obligation Refunding Bonds Series 2006 (W&S portion)	132,930	-	42,488	90,442	-
Combination Tax and Revenue Certificates of Obligation - Series 2007 due in annual installments from September 30, 2008 through September 30, 2027; effective interest at 4.75%	62,855,000	-	-	62,855,000	-
Unamortized Premium on Certificate of Obligations - 2007	1,985,525	-	206,980	1,778,545	-
\$4,065,000 General Obligation Refunding Bonds - Series 2009 (Water & Sewer Fund portion) due in annual installments beginning March 1, 2010 through March 1, 2015; effective interest 3.39%	3,045,000	-	985,000	2,060,000	1,015,000
Unamortized Premium on General Obligation Refunding Bonds Series 2009 (W&S portion)	46,860	-	15,160	31,700	-
Compensated Absences	1,157,578	239,430	325,925	1,071,083	325,925
Other Post Employment Benefits Obligation	1,618,382	130,964	-	1,749,346	-
TMRS Net Pension Obligation	1,101,968	8,652	-	1,110,620	-
	<u>\$ 81,548,243</u>	<u>\$ 379,046</u>	<u>\$ 4,645,553</u>	<u>\$ 77,281,736</u>	<u>\$ 4,545,925</u>

Principal payments are due annually for revenue bonds on April 1 and interest payments are due semi-annually on October 1 and April 1.

All business-type activity debt was issued for the purpose of improving the City's capital infrastructure of its Water and Sewer System. Debt proceeds were used to replace and enhance water and sewer lines, and to make water and sewer plant improvements. All refunding issues are therefore related to the same purpose.

At September 30, 2013, the City still held unspent bond proceeds of \$31,144,148 on the Series 2007 Certificates of Obligation as many capital improvement projects are ongoing.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13: LONG-TERM DEBT – CONTINUED

The annual requirements to amortize all revenue bonds outstanding as of September 30, 2013, are as follows:

<u>Year Ending September 30</u>	<u>Certificates of Obligation</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -	\$ 3,142,750	\$ 3,142,750
2015	-	3,142,750	3,142,750
2016	3,920,000	3,044,750	6,964,750
2017	4,120,000	2,843,750	6,963,750
2018	4,330,000	2,632,500	6,962,500
2019-2023	25,225,000	9,593,875	34,818,875
2024-2027	25,260,000	2,604,750	27,864,750
	<u>\$ 62,855,000</u>	<u>\$ 27,005,125</u>	<u>\$ 89,860,125</u>

<u>Year Ending September 30</u>	<u>Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,220,000	\$ 249,100	\$ 4,469,100
2015	4,375,000	84,888	4,459,888
	<u>\$ 8,595,000</u>	<u>\$ 333,988</u>	<u>\$ 8,928,988</u>

Defeasance of Debt

In 2012, the City refunded \$5,085,000 of its Series 2004 Certificates of Obligation and \$1,810,000 of its Series 2001 Certificates of Obligation. Before 2012, the City had issued \$7,345,000 in General Obligation Refunding Bonds, Series 2009 and \$18,735,000 in General Obligation Refunding Bonds, Series 2006 to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of 1) \$3,280,000 Certificates of Obligation, Series 1998, 2) \$5,580,000 Certificates of Obligation, Series 2000, and 3) \$16,290,000 Waterworks and Sewer System Refunding Revenue Bonds, Series 2001. As a result, these certificates and bonds have been considered defeased and the liability has been removed from the Governmental Activities statement of net assets, and from the Water and Sewer Enterprise Fund statement of net assets.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 13: LONG-TERM DEBT – CONTINUED

Defeasance of Debt - Continued

At September 30, 2013, outstanding issues are considered to be defeased. They are analyzed as follows:

Issue	Amount Defeased	Defeased Debt Outstanding
Certificates of Obligation, Series 1998	\$ 3,280,000	\$ 2,115,000
Certificates of Obligation, Series 2000	5,580,000	4,215,000
Waterworks and Sewer System Refunding Bonds, Series 2001	16,290,000	8,520,000
Certificates of Obligation, Series 2001	1,810,000	1,680,000
Certificates of Obligation, Series 2004	5,085,000	4,970,000
		<u>\$ 21,500,000</u>

NOTE 14: CAPITAL LEASE OBLIGATIONS

The City is obligated under a capital lease for equipment which cost \$10,228,076 and is included in governmental activities' assets.

Future minimum lease payments as of September 30, 2013 are as follows:

Year ending September 30,	General Fund
2014	\$ 1,332,730
2015	1,332,730
2016	418,135
Total minimum lease payments	3,083,595
Less amounts representing interest	(328,992)
Present value of net minimum capital lease payments	2,754,603
Less current obligations under capital lease	(1,157,018)
Obligations Under Capital Leases Less Current Portion	<u>\$ 1,597,585</u>

NOTE 15: LANDFILL CLOSURE AND POST-CLOSURE CARE COST

State and federal laws and regulations require the City to place a final cover on its Johnson Ranch landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The Johnson Ranch landfill site reached its operating capacity during the 1996 fiscal year. The site received approval to enter the post-closure care period during that fiscal year. During the year ended September 30, 2013, \$28,963 was expended for the post-closure care costs for the landfill, and \$23,917 was added to the liability to reflect inflated estimated costs. The City's post-closure liability as of September 30, 2013 was \$1,618,416. The post-closure care costs are based on prior estimates and have been adjusted for inflation. Actual costs may vary due to changes in inflation, changes in technology or changes in regulations.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 15: LANDFILL CLOSURE AND POST-CLOSURE CARE COST - Continued

Although closure and post-closure care costs has been paid only near or after the date that the landfill stopped accepting waste, the City reported a portion of these estimated closure and post-closure care costs as an operating expense in the prior periods based on landfill capacity used in those prior periods. At September 30, 2013, the City does not operate a landfill.

The City has met the financial and public notice component sections of the Local Financial Test and Government Guarantee, and is in compliance with the state and federal laws and regulations governing landfill closure and post-closure care at September 30, 2013.

NOTE 16: RISK MANAGEMENT

It is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed, except for certain stop-loss provisions. The City did not have a significant reduction in insurance coverage from coverage in the prior year. Instead, the City believes it is more economical to manage its risks internally and set aside assets for claim settlements in its internal service fund, the Risk Management Fund.

Medical claims exceeding \$250,000 per covered individual, workmen's compensation claims in excess of \$350,000, and comprehensive general liability, law enforcement liability, employment practices liability, EMT liability and automotive liability exceeding \$250,000 with a limit of \$10,000,000 are covered through private insurance carriers. The Risk Management Fund services all claims for risk of loss to which the City is exposed, including general liability, property and casualty, employee health and accident, environmental, and antitrust. All funds participate in the Risk Management Fund. The cost of providing claim servicing and claim payments is allocated by charging a "premium" to each fund. For 2013, these premiums did adequately cover expenditures. There have been no settlements exceeding insurance coverage for the last five years.

Self-Insurance Fund liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used to compute claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, effects of specific incremental claim adjustment expenditures, salvage, subrogation, and allocated claim adjustment expenditures. All outstanding claims and the IBNR claims are reported as current liabilities in accounts payable.

Changes in the balances of claims liabilities during the fiscal years 2013 and 2012 were as follows:

Fiscal Year	Liability at Beginning	Current-Year Claims and Changes in Estimates	Claim Payments	Liability at End
2013	\$ 1,172,031	\$ 6,663,286	\$ 6,529,908	\$ 1,305,409
2012	1,521,729	5,702,998	6,052,696	1,172,031

The City is a defendant in a significant number of lawsuits pertaining to material matters. As stated in Note 19 - Litigation, the City has accrued and recorded potential losses that are determinable at this time within accounts payable in the Internal Service Funds.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 17: FUND BALANCE

In accordance with GASB Statement 54, the City classifies its fund balances at September 30, 2013, as follows:

	General	Capital Projects	NonMajor				Total NonMajor	Total Governmental
			Housing & Comm. Dev	Convention & Visitors	Other	Debt Service		
NONSPENDABLE:								
Inventory	\$ 6,073	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,073
RESTRICTED FOR:								
Parks, Public Works, & Public Safety	-	54,583,451	-	-	-	-	-	54,583,451
Culture & Recreation	-	-	-	10,733,303	-	-	10,733,303	10,733,303
Public Safety	-	-	-	-	640,140	-	640,140	640,140
Municipal Court	-	-	-	-	145,926	-	145,926	145,926
Debt Service	-	-	-	-	-	661,216	661,216	661,216
Welfare	-	-	-	-	28,698	-	28,698	28,698
Other Purposes	-	-	-	-	262,303	-	262,303	262,303
ASSIGNED TO:								
Compensated Absences	1,143,523	-	-	-	-	-	-	1,143,523
Parks Improvements/Development	2,768,870	-	-	-	-	-	-	2,768,870
Other Capital Projects	-	731,106	-	-	-	-	-	731,106
Public Safety	5,465,228	-	-	-	-	-	-	5,465,228
Information Technology	726,436	-	-	-	-	-	-	726,436
Other Purposes	1,459,850	-	-	-	-	-	-	1,459,850
Public Works	6,211,770	-	-	-	-	-	-	6,211,770
UNASSIGNED:	<u>28,834,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,834,767</u>
	<u>\$46,616,517</u>	<u>\$55,314,557</u>	<u>\$ -</u>	<u>\$10,733,303</u>	<u>\$1,077,067</u>	<u>\$661,216</u>	<u>\$12,471,586</u>	<u>\$114,402,660</u>

NOTE 18: COMMITMENTS AND CONTINGENCIES

Colorado River Municipal Water District

The City has entered into an agreement with the Colorado River Municipal Water District, ("CRMWD"). The City has agreed with the CRMWD pursuant to a water sales contract, to purchase all of its water needs from the CRMWD. The contract constitutes an obligation of the City to make payments solely from the revenues of its water and sewer utility. These payments are computed annually based upon debt service requirements and production costs.

Federally Assisted Programs - Compliance Audits

The City participates in numerous federally assisted programs. Principal among these is Community Development Block Grant. In connection with this grant, the City is required to comply with specific terms and agreements as well as applicable federal laws and regulations. Such compliance is subject to additional review and audit by the grantors and their representatives.

In the opinion of management, the City has materially complied with all requirements. However, since such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of any disallowance of claimed expenditures, the City expects the resulting liability to be immaterial. This liability would be paid from the General Fund, or the City would seek reimbursement from those organizations benefited.

**CITY OF ODESSA, TEXAS
NOTES TO FINANCIAL STATEMENTS**

NOTE 19: LITIGATION

The City is party to various legal actions arising in the ordinary course of its business. In the opinion of the City's management, upon advice of the City Attorney, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe that they will materially affect the City's operations or financial position. The potential losses of those lawsuits that are determinable at this time have been accrued in the risk management fund.

NOTE 20: NEW PRONOUNCEMENTS

GASB issued Statement No. 66 "Technical Corrections – 2012 – an Amendment of GASB Statements No. 10 and No. 62" to resolve two distinct areas of conflict in previously issued GASB Statements regarding "Risk Financing and Related Insurance Issues" and "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements". This statement is effective for financial statements for periods beginning after December 15, 2012.

GASB issued Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees" – intended to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. This statement is effective for financial statements for periods beginning after June 15, 2013.

GASB issued Statement No. 69 "Government Combinations and Disposals of Government Operations" intended to improve accounting and financial reporting for U.S. state and local governments' combinations and disposals of government operations, by providing guidance for accounting situations encountered in government environments. This statement is effective for financial statements for periods beginning after December 15, 2013.

GASB issued Statement No. 68 "Accounting and Financial Reporting for Pension – an amendment of GASB Statement No 27" to address new accounting and financial reporting standards for the activities of certain pension plans that are administered through trusts. In particular, it established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014.

The City of Odessa's management is reviewing the implementation process of this standard by gathering required information.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Texas
New York
Washington, DC
Connecticut
Seattle
Dubai
London

Bracewell & Giuliani LLP
111 Congress Avenue
Suite 2300
Austin, Texas
78701-4061

[Form of Opinion of Bond Counsel]

[Closing Date]

\$10,060,000
CITY OF ODESSA, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
SERIES 2014

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

**CITY OF ODESSA, TEXAS, GENERAL OBLIGATION
REFUNDING BONDS, SERIES 2014, dated June 1, 2014**

The Bonds mature, bear interest, are subject to redemption and may be transferred and exchanged as set forth in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance and a pricing certificate executed pursuant to such ordinance (collectively, the “Ordinance”).

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

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, which contains certified copies of certain proceedings of the Issuer; an escrow agreement (the “Escrow Agreement”) between the Issuer and U.S. Bank National Association, as escrow agent (the “Escrow Agent”); a report (the “Report”) of Grant Thornton LLP, Certified Public Accountants (the “Verification Agent”), regarding the mathematical accuracy of certain computations and verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the “Refunded Obligations”); customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant. We have also examined executed Bond No. 1 of this issue.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

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

(B) A continuing ad valorem tax upon all taxable property within the City of Odessa, Texas, necessary to pay the interest on and principal of the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; and

(C) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Escrow Agreement, and therefore, the Refunded Obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

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

IT IS OUR FURTHER OPINION THAT:

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

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

In providing such opinions, we have relied on representations of the Issuer, the Issuer’s financial advisor and the underwriter of the Bonds with respect to matters solely within the knowledge of the Issuer, the Issuer’s financial advisor and the underwriter, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. We have further relied on the Report of the Verification Agent regarding the mathematical accuracy of certain computations and verifying the sufficiency of the deposit made with the Escrow Agent for the defeasance of the Refunded Obligations. If such representations or the Report are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Ordinance, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

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

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

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Service, rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced

above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

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