FirstSouthwest Continuing Disclosure Services

(See "Continuing Disclosure of Information" herein)

OFFICIAL STATEMENT

Dated January 10, 2012

Ratings:
Fitch: "AA"
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

$16,010,000
ROCKWALL COUNTY, TEXAS
UNLIMITED TAX ROAD BONDS, SERIES 2012

Dated Date: January 1, 2012 **Due: February 1, as shown on page 2**

PAYMENT TERMS . . . Interest on the $16,010,000 Rockwall County, Texas, Unlimited Tax Road Bonds, Series 2012 (the "Bonds") will accrue from January 1, 2012 (the "Dated Date"), and will be payable February 1 and August 1 of each year commencing February 1, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is U.S. Bank, National Association, Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly, Article III, Section 52 of the Texas Constitution, as amended, Chapter 1471, Texas Government Code, as amended, and County-wide elections held on November 2, 2004 and November 4, 2008, and are direct obligations of Rockwall County, Texas (the "County"), payable from a continuing annual ad valorem tax levied on all taxable property within the County, without legal limit as to rate or amount, as provided in the order authorizing the Bonds (the "Bond Order") (see "The Bonds - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) for the construction, maintenance and operation of macadamized, graveled or paved roads and turnpikes, or in aid thereof, throughout the County, including participating in the cost of joint projects with various state, city and regional council of government entities; and (ii) to pay costs of issuance associated with the sale of the Bonds.

CUSIP PREFIX: 774268

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 Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell & Giuliani L.L.P., Bond Counsel, Dallas, Texas (see Appendix C - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by West & Associates, L.L.P., Dallas, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on January 31, 2012.

MORGAN KEEGAN **RAYMOND JAMES & ASSOCIATES, INC.**

CUSIP Prefix: 774268 [(1)]

MATURITY SCHEDULE

Principal Amount	Maturity 1-Feb	Rate	Price or Yield	CUSIP Suffix
$ 435,000	2015	3.000%	0.800%	LU(8)
675,000	2016	4.000%	1.000%	LD(6)
705,000	2017	4.000%	1.170%	LE(4)
730,000	2018	4.000%	1.360%	LF(1)
760,000	2019	3.000%	1.640%	LG(9)
780,000	2020	3.000%	1.840%	LH(7)
810,000	2021	4.000%	2.110% [(2)]	LJ(3)
845,000	2022	4.500%	2.400% [(2)]	LK(0)
885,000	2023	4.500%	2.580%	LL(8)
915,000	2024	2.750%	2.890%	LM(6)
940,000	2025	3.000%	3.100%	LN(4)
970,000	2026	3.125%	3.230%	LP(9)
1,000,000	2027	3.200%	3.330%	LQ(7)
1,035,000	2028	3.300%	3.430%	LR(5)

$2,180,000 Term Bond due February 1, 2030 @ 3.500%, priced to yield 3.630%, CUSIP suffix: LS(3)
$2,345,000 Term Bond Due February 1, 2032 @ 3.750%, priced to yield 3.850%, CUSIP suffix: LT(1)

(Accrued Interest from January 1, 2012 to be added)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & 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 County nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Priced to the February 1, 2021 optional redemption date at par.

OPTIONAL REDEMPTION . . . The County reserves the right, at its option, to redeem Bonds having stated maturities on and after February 1, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on February 1 in the years 2030 and 2032 (the "Term Bonds") are subject to mandatory sinking fund redemption as described herein (see "The Bonds – Mandatory Sinking Fund Redemption").

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

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

The information set forth herein has been obtained from the County 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 Underwriters or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

NEITHER THE COUNTY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE COUNTY .... The County is a legal subdivision of the State of Texas, located in North Central Texas. The County covers approximately 149 square miles. The City of Rockwall, Texas is the County Seat.

THE BONDS .... The Bonds are issued as $16,010,000 Unlimited Tax Road Bonds, Series 2012. A portion of the Bonds mature serially on February 1, 2015 through February 1, 2028 and a portion are issued as Term Bonds maturing February 1 in the years 2030 and 2032 (see "The Bonds – Description of the Bonds").

PAYMENT OF INTEREST .... Interest on the Bonds will accrue from January 1, 2012 and is payable February 1, 2013, and each August 1 and February 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, particularly, Article III, Section 52 of the Texas Constitution, as amended, Chapter 1471, Texas Government Code, as amended and County-wide elections held on November 2, 2004 and November 4, 2008, and the Bond Order adopted by the Commissioners Court of the County (see "The Bonds - Authority for Issuance").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the County, payable from the levy and collection of a direct and continuing ad valorem tax, without legal limit as to rate or amount, on all taxable property located within the County (see "The Bonds - Security and Source of Payment").

REDEMPTION .... The County reserves the right, at its option, to redeem Bonds having stated maturities on and after February 1, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption"). Additionally, certain of the Bonds are subject to mandatory sinking fund redemption as more particularly described herein (see "The Bonds – Mandatory Sinking Fund Redemption").

TAX EXEMPTION........................... In the opinion of Bond Counsel, 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 (i) for the construction, maintenance and operation of macadamized, graveled or paved roads and turnpikes, or in aid thereof, throughout the County, including participating in the cost of joint projects with various state, city and regional council of government entities; and (ii) to pay costs of issuance associated with the sale of the Bonds.

RATINGS .... The Bonds and the presently outstanding tax supported debt of the County are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's"), "AA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Service LLC business ("S&P") and "AA" by Fitch Ratings ("Fitch"), without regard to third-party 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 County has not defaulted in payment of its tax debt since 1937 when a portion of the debt was refunded at par, at the same rate of interest. Prior to such refunding the County was late from 12 to 18 months in the payment of debt service on all classes of indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated County Population[(1)]	Taxable Assessed Valuation [(2)]	Per Capita Taxable Assessed Valuation	Tax Debt [(3)]	Per Capita Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2008	78,000	$ 6,261,535,398	$ 80,276	$ 52,045,000	$ 667	0.83%	101.39%
2009	84,081	6,736,418,294	80,118	60,060,000	714	0.89%	100.92%
2010	78,337	6,909,734,429	88,205	59,075,000	754	0.85%	100.96%
2011	81,391	6,901,863,493	84,799	56,500,000	694	0.82%	100.12% [(4)]
2012	97,249	6,919,171,893	71,149	69,920,000 [(5)]	719 [(5)]	1.01% [(5)]	6.51% [(6)]

(1) Source: County Officials and 2010 Census data.
(2) As reported by the Rockwall County Appraisal District on County's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Projected.
(4) Unaudited.
(5) Includes the Bonds.
(6) Partial collections through November 30, 2011.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended September 30,				
	2011[(1)]	2010	2009	2008	2007
Beginning Balance	$ 20,867,180	$ 20,994,789	$ 19,826,660	$ 18,513,756	$ 13,836,914
Total Revenue	24,765,349	24,362,847	24,448,016	23,742,676	21,300,897
Total Expenditures	22,346,885	23,996,372	21,692,013	23,969,349	19,229,764
Net Transfers	(3,205,373)	(494,084)	(1,587,874)	1,898,602	2,047,317
Prior Period Adjustment	(10)	-	-	(359,025)	558,392
Ending Balance	$ 20,080,260	$ 20,867,180	$ 20,994,789	$ 19,826,660	$ 18,513,756

(1) Unaudited.

For additional information regarding the County, please contact:

Lisa Constant		W. Boyd London, Jr.
County Auditor		Marti Shew
Rockwall County	or	First Southwest Company
101 East Rusk #101		1700 Pacific Avenue, Suite 800
Rockwall, Texas 75087		Dallas, Texas 75201
(972) 204-6050		(214) 953-4000

COUNTY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Commisioners Court	Length of Service	Term Expires
Jerry Hogan County Judge	1 Year	31-Dec-14
Jerry Wimpee County Commissioner	17 Years	31-Dec-12
Lorie Grinnan County Commissioner	5 Years	31-Dec-14
Dennis Bailey County Commissioner	3 Years	31-Dec-12
David Magness County Commissioner	9 Years	31-Dec-14

OTHER ELECTED AND APPOINTED OFFICIALS

Name	Position	Length of Service In Rockwall County	Total Municipal Government Experience
Lisa Constant	County Auditor	11 Years	11 Years
Shelli Miller	County Clerk	1 Year	1 Year
Barbara Barber	Tax Assessor Collector	14 Years	14 Years
David Peek	County Treasurer	1 Year	1 Year

CONSULTANTS AND ADVISORS

Auditors .... Patillo, Brown & Hill, L.L.P.
Waco, Texas

Bond Counsel .... Vinson & Elkins L.L.P.
Dallas, Texas

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

OFFICIAL STATEMENT

RELATING TO

$16,010,000
ROCKWALL COUNTY, TEXAS
UNLIMITED TAX ROAD BONDS, SERIES 2012

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $16,010,000 Unlimited Tax Road Bonds, Series 2012 (the "Bonds"). Except as otherwise indicated herein, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order adopted on the date of sale of the Bonds which authorized the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the County 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 County's Financial Advisor, First Southwest Company, Dallas, Texas.

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

DESCRIPTION OF THE COUNTY . . . The County was organized in 1873 and operates as specified under the Constitution of the State of Texas and statutes which provide for a Commissioners Court consisting of the County Judge and four Commissioners, one from each of four geographical Commissioners Precincts. The County Judge is elected for a term of four years and the Commissioners for four year staggered terms. Other major County elective officers include the County Clerk and County Treasurer. The County Auditor is appointed for a term of two years by and serves at the will of the District Judges whose courts are located in Rockwall County. The 2010 Census population for the County was approximately 81,391, while the estimated 2012 population is 97,249. The County covers approximately 149 square miles. The City of Rockwall is the County Seat.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated January 1, 2012, and mature on February 1 in each of the years and in the amounts shown on page 2 hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 1 and August 1, commencing February 1, 2013.

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 ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly, Article III, Section 52 of the Texas Constitution, as amended, Chapter 1471, Texas Government Code, as amended, and County-wide elections held on November 2, 2004 and November 4, 2008, and by the Bond Order passed by the Commissioners Court.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the County, payable from the levy and collection of a direct and continuing ad valorem tax levied, without legal limit as to rate or amount, on all taxable property in the County, as provided in the Bond Order.

TAX RATE LIMITATION

General Operations; Bonds, Time Warrants, Certificates of Obligation, and Contractual Obligations . . . The Texas Constitution (Article VIII, Section 9) imposes a limit of $0.80 per $100 of assessed valuation for all purposes of the General Fund, Permanent Improvement Fund, Road and Bridge Fund, and Jury Fund, including debt service of bonds, warrants, tax notes, and certificates of obligation issued against such funds. Administratively, the Attorney General of the State of Texas will permit allocation of $0.40 of the $0.80 Constitutional tax rate for Bond debt service.

Road Bonds . . . An unlimited tax rate for debt service on road bonds is authorized by Article III, Section 52 of the Texas Constitution. The Bonds are being issued pursuant to Article III, Section 52. The total amount of Article III, Section 52 bond indebtedness outstanding at any time cannot exceed 25% of the assessed real property of the County.

Road Maintenance (Special Road and Bridge Tax) . . . A road maintenance tax is imposed by the Texas Constitution (Article VIII, Section 9) of $0.15 per $100 of assessed valuation, no part of which may be used for debt service.

Farm-to-Market Purposes . . . A tax is imposed by the Texas Constitution (Article VIII, Section 1-a) of $0.30 per $100 assessed valuation after exemption of homesteads up to $3,000; no allocation is prescribed by statute between debt service and maintenance.

See "Table 1 - Valuations, Exemptions and Tax-Supported General Obligation Bond Debt" herein for a description of the amount of the County's debt that is secured by the unlimited tax authorized by Article III, Section 52 of the Texas Constitution, and amount of debt secured by the limited tax authorized by Article VII, Section 9 of the Texas Constitution. Also, see "Table 11-Authorized But Unissued Bonds" herein for a description of the County's remaining voted and unissued bond authorization relating to each of such unlimited and limited constitutional taxing authorizations.

OPTIONAL REDEMPTION . . . The County reserves the right, at its option, to redeem Bonds having stated maturities on and after February 1, 2022, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2021, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the County 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.

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on February 1 in the years 2030 and 2032 (the "Term Bonds") are subject to mandatory sinking fund redemption in the amounts and at a price of par plus accrued interest to the redemption date on February 1 in the following years:

Unlimited Tax Term Bond February 1, 2030			Unlimited Tax Term Bond February 1, 2032		
Year		Amount	Year		Amount
2029		$ 1,070,000	2031		$ 1,150,000
2030	*	1,110,000	2032	*	1,195,000

* Maturity.

The particular Term Bonds to be redeemed shall be chosen by the Paying Agent/Registrar at random by lot or other customary method; provided, however, that the principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the County, by the principal amount of said Term Bonds which at least 45 days prior to the mandatory redemption date, (1) shall have been acquired by the County at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a a mandatory redemption requirement.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Bonds, the County shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of the Bonds to be redeemed at the address of the 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.

In the Bond Order, the County reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the County retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the County delivers a certificate of the County to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the County to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE COUNTY IN THE NOTICE, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

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

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 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 and www.dtc.org.

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

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

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

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

DTC may discontinue providing its services as depository with respect to one or both series of the Bonds at any time by giving reasonable notice to the County 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 County may decide to discontinue the use of the system of book-entry-only transfers through DTC (or a successor depository). Discontinuation of the system of book-entry transfers by the County may require the consent of Participants under DTC's Operational Arrangements. In that event, Bond certificates, 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 Order 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 County, the Financial Advisor, or the Underwriters.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the 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 Order 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 Bond Order, the County retains the right to replace the Paying Agent/Registrar. The County 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 County 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.

Principal of the Bonds at stated maturity or earlier redemption will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "The Bonds – Record Date for Interest Payment" herein), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment as due. So long as CEDE & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "The Bonds - Book-Entry-Only- System" above.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated 1 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 County 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 preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the County. 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 Bond Order establishes as "events of default" (i) the failure to make payment of the principal of, redemption premium, if any, or interest on the Bonds when due and payable; or (ii) default in the observance or performance of any of the covenants, conditions, or obligations of the County, 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 Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the County. Under State law there is no right to the acceleration of maturity of the Bonds upon the failure of the County to observe and covenant under the Bond Order. Although a registered owner of Bonds could presumably obtain a judgment against the County if a default occurred in the payment of principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the County. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the County 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. County 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. Because it is unclear whether the Texas legislature has effectively waived the County's sovereign immunity from a suit for money damages, a Bondholder may not be able to bring such a suit against the County for breach of the Bonds or Bond Order covenants. As noted above, Bondholders may exercise the remedy of mandamus to enforce the obligations of the County under the Bond Order. 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). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the County, permits the County to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the County is not using the authority provided by Chapter 1371 and has not waived sovereign immunity in the proceedings authorizing its Bonds.

The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the County to perform in accordance with the terms of the Bond Order, or upon any other condition. Furthermore, the County is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("*Chapter 9*"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the County avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

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SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds		
Par Amount of Bonds	$	16,010,000.00
Reoffering Premium		717,562.45
Accrued Interest from 1/1/12 to 1/31/12		47,330.63
Total Sources	$	16,774,893.08
Uses of Funds		
Total Underwriters' Discount	$	107,895.20
Costs of Issuance		145,000.00
Deposit to Debt Service Fund[(1)]		51,630.88
Deposit to Project Construction Fund		16,470,367.00
Total Uses	$	16,774,893.08

(1) Includes the rounding amount.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the County is the responsibility of the Rockwall County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title I of the Texas Tax Code ("Texas Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal, and the market data comparison method of appraisal. The chief appraiser selects the most appropriate method. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property in the preceding year, plus (b) the appraised value of the property for the preceding 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 three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The County may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the County by petition filed with the Appraisal Review Board.

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

Article VIII of the State Constitution ("Article VIII") and other 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 Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than $3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Texas Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of $5,000.

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 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children. Notwithstanding, a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead

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. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repeated or rescinded. The County has authorized the tax freeze on homesteads of taxpayers 65 years of age or older. For additional information, see "Ad Valorem Tax Information - County Application of Tax Code" and "Table 1 – Valuation, Exemptions and General Obligation Bond Debt."

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

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

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabrication. Notwithstanding such exemption, counties, school districts, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision 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 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 vehicles, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax "goods-in-transit" during the following tax year. A taxpayer may only receive either the freeport exemption or the "goods-in-transit" exemption for items of personal property.

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

The County also may enter into tax abatement agreements to encourage economic development. Under tax abatement agreements, a property owner agrees to construct certain improvements on its property. The County 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 tax abatement agreement could last for a period of up to ten years.

The County is authorized, pursuant to Chapter 381, Texas Local Government Code, as amended ("Chapter 381"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the County. In accordance with a program established pursuant to Chapter 381, the County 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 County. The County may contract with the federal government, the State of Texas, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The Commissioners Court will be required to adopt the annual tax rate per $100 taxable value for the County before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the County. If the Commissioners Court 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 County 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.

Furthermore, the Texas Property Tax Code provides the Commissioners Court may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a notice of such public hearing (including the requirement that notice be posted on the County's website if the County owns, operates or controls an Internet website and public notice be given by television if the County has free access to a television channel) and the Commissioners Court 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 County 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 Texas 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 Texas 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 County 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 January 31 of each year and the final installment due on July 31.

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, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge Linebarger, Goggan, et al (collection agency for the County) assesses a legal cost of 15% for legal costs incurred collecting delinquent taxes). 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 County'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.

COUNTY APPLICATION OF TAX CODE . . . The County grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $35,000; disabled veterans are also granted an exemption of a percentage of the disability (no flat rate).

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

The County does not tax nonbusiness personal property. The County collects its own taxes.

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

The County does not tax freeport property.

The County does tax "goods-in-transit".

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

The County has established a freeze on the taxes on residence homesteads of persons 65 years of age or older, or who are disabled, other than disabled veterans.

TAX ABATEMENT POLICY . . . The County 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. Maximum term of any abatement agreement is ten years.

TAX INCREMENT FINANCING ZONE . . . The County has entered into a contract to participate in the Rockwall Tax Increment Reinvestment Zone Number One ("Reinvestment Zone"). The County agrees to pay into the Tax Increment Fund ("TIF"), from the taxes levied and collected against the captured appraised value of real property for each fiscal year end 2005 through 2016, inclusive, a percentage of said taxes that will produce an amount equal to the sum of (i) 100% of the taxes levied and collected against the captured appraised value of real property in the replatted MJ Barksdale Abstract, The Harbor Addition plus (ii) 50% of the taxes levied and collected against the captured appraised value of real property in the balance of the Reinvestment Zone properties. The base value of the TIF was established in 2004 as $15,279, 969 and has increased to $76,079,050 for tax year 2011. The taxable assessed value for the County for tax year 2011 was $6,919,171,893 after offsets for exemptions and other adjustments.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2011/12 Market Valuation Established by Rockwall County Appraisal District		$7,587,925,390
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions and Over 65	$ 139,945,105	
Disabled Veterans Exemptions	21,139,690	
Freeport Exemption	21,488,368	
Pollution Control	605,986	
Prorated Exempt Property	128,834	
Homestead Cap Adjustment	2,402,049	
Charitable Orgination (partial)	1,580,409	
House Bill 366	7,270	
Productivity Loss	481,455,786	668,753,497
2011/12 Taxable Assessed Valuation		$ 6,919,171,893
Tax Debt Payable from Ad Valorem Taxes (as of 12/1/2011) (1)		
Outstanding Unlimited Tax Debt	$12,575,000	
Outstanding Limited Tax Debt	43,925,000	
The Unlimited Tax Bonds	16,010,000	
Total Debt Payable from Ad Valorem Taxes		$ 72,510,000
Interest and Sinking Fund (as of 12/1/11)		$ 1,569,755
Ratio Tax Debt to Taxable Assessed Valuation		1.05%

2012 Estimated Population - 97,249
Per Capita Taxable Assessed Valuation - $71,149
Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - $746

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(1) Does not include lease/purchase obligations.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2012		2011		2010	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$4,957,556,207	65.33%	$4,908,952,604	64.89%	$4,868,070,456	64.26%
Real, Residential, Multi-Family	66,516,198	0.88%	52,982,066	0.70%	38,169,520	0.50%
Real, Vacant Lots/Tracts	197,105,312	2.60%	208,522,820	2.76%	234,158,170	3.09%
Real, Acreage (Land Only)	599,042,590	7.89%	605,370,760	8.00%	615,911,400	8.13%
Real, Farm and Ranch Improvements	215,732,836	2.84%	213,294,331	2.82%	213,434,715	2.82%
Real, Commercial & Industrial	954,549,687	12.58%	962,122,000	12.72%	965,453,445	12.74%
Real and Tangible Personal, Utilities	131,470,610	1.73%	135,325,210	1.79%	137,514,080	1.82%
Tangible Personal, Commercial & Industrial	351,969,959	4.64%	352,882,773	4.66%	358,002,305	4.73%
Tangible Personal, Mobile Homes	11,068,111	0.15%	11,498,061	0.15%	11,800,380	0.16%
Real Property, Inventory	86,342,170	1.14%	102,299,578	1.35%	120,527,520	1.59%
Special Inventory	16,571,710	0.22%	11,612,430	0.15%	12,737,610	0.17%
Total Appraised Value Before Exemptions	$ 7,587,925,390	100.00%	$ 7,564,862,633	100.00%	$ 7,575,779,601	100.00%
Less: Total Exemptions/Reductions	668,753,497		662,999,140		666,045,172	
Taxable Assessed Value	$ 6,919,171,893		$ 6,901,863,493		$ 6,909,734,429	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2009		2008	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$4,721,703,987	63.82%	$4,472,856,799	65.35%
Real, Residential, Multi-Family	38,083,570	0.51%	37,827,738	0.55%
Real, Vacant Lots/Tracts	235,530,991	3.18%	214,934,610	3.14%
Real, Acreage (Land Only)	635,549,952	8.59%	569,261,421	8.32%
Real, Farm and Ranch Improvements	208,548,918	2.82%	201,864,177	2.95%
Real, Commercial & Industrial	891,858,551	12.05%	733,124,315	10.71%
Real and Tangible Personal, Utilities	126,474,150	1.71%	133,176,430	1.95%
Tangible Personal, Commercial & Industrial	374,847,923	5.07%	313,160,171	4.58%
Tangible Personal, Mobile Homes	12,585,824	0.17%	13,445,580	0.20%
Real Property, Inventory	143,414,293	1.94%	144,309,092	2.11%
Special Inventory	9,692,050	0.13%	10,043,790	0.15%
Total Appraised Value Before Exemptions	$ 7,398,290,209	100.00%	$ 6,844,004,123	100.00%
Less: Total Exemptions/Reductions	661,871,915		582,468,725	
Taxable Assessed Value	$ 6,736,418,294		$ 6,261,535,398	

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

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2008	78,000	$ 6,261,535,398	$ 80,276	$ 52,045,000	0.83%	$ 667
2009	84,081	6,736,418,294	80,118	60,060,000	0.89%	714
2010	78,337	6,909,734,429	88,205	59,075,000	0.85%	754
2011	81,391	6,901,863,493	84,799	56,500,000	0.82%	694
2012	97,249	6,919,171,893	71,149	69,920,000 (3)	1.01% (3)	719 (3)

(1) Source: County Officials and 2010 Census data.
(2) As reported by the Rockwall County Appraisal District on the County's annual State Property Tax Board Reports; subject to change during the ensuing year.
(3) Includes the Bonds.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Maintenance and Operation Rate [(2)]	Interest and Sinking Rate	Tax Levy	% Current Collections	% Total Collections
2008	$ 0.3500	$ 0.2995	$ 0.0505	$ 21,868,024	98.67%	101.36%
2009	0.3750	0.3016	0.0734	25,047,889	98.76%	100.92%
2010	0.3750	0.2969	0.0781	25,745,046	98.97%	100.96%
2011	0.3864	0.3020	0.0844	26,473,973	98.09% (1)	100.12% (1)
2012	0.3864	0.3080	0.0784	26,561,445 (2)	6.30% (3)	6.51% (3)

(1) Unaudited.
(2) Calculated at 98% collections.
(3) Collections for partial year only, through November 30, 2011.

TABLE 5 - TAX RATE DISTRIBUTION ANALYSIS

	Fiscal Year Ended September 30,				
Constitutional Tax Rate	2012	2011	2010	2009	2008
General Fund	$ 0.3079	$ 0.2995	$ 0.2944	$ 0.2991	$ 0.2970
Road and Bridge Fund	0.0001	0.0025	0.0025	0.0025	0.0025
Interest and Sinking Fund	0.0784	0.0844	0.0781	0.0734	0.0505
Total Tax Rate	$ 0.3864	$ 0.3864	$ 0.3750	$ 0.3750	$ 0.3500

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TABLE 6 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2011/12 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
ONCOR Electric Delivery Co	Utility	$ 74,285,030	1.07%
Excel Rockwall LLC	Multifamily Apartment	40,193,730	0.58%
Rockwall Regional Hospital LLP	Medical Facility	33,609,770	0.49%
Western RIM Investors 2008 2 LP	Multifamily Apartment	31,218,380	0.45%
Continental PET Technology	Plastic Manufacturing	30,433,693	0.44%
Rockwall Hotel and Conference Group Inc.	Hotel	29,160,780	0.42%
Lake Pointe Medical Center	Medical Facility	27,043,350	0.39%
Wal-Mart Real Estate	Retail	22,662,870	0.33%
Rockwall Crossing Ltd.	Real Estate	21,841,596	0.32%
T Rockwall Commons LLC	Multifamily Apartment	18,878,292	0.27%
		$ 329,327,491	4.76%

TABLE 7 - TAX ADEQUACY (1)

2012 Net Principal and Interest Requirements	$4,963,050
$0.0732 Tax Rate at 98% Collection Produces	$4,963,537
Average Net Principal and Interest Requirements (2012-2034)	$4,750,135
$0.0701 Tax Rate at 98% Collection Produces	$4,753,333
Maximum Principal and Interest Requirements (2013)	$5,740,884
$0.0847 Tax Rate at 98% Collection Produces	$5,743,328

(1) Includes the Bonds.

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TABLE 8 - ESTIMATED CONSOLIDATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the County are paid out of ad valorem taxes levied by such entities on properties within the County. Such entities are independent of the County 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 County, the County 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 debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the County.

Governmental Subdivision	2011/12 Taxable Assessed Value	2011/12 Tax Rate	Total Tax Debt	Estimated % Applicable	County's Overlapping Tax Debt As of 12/1/11	Authorized But Unissued Debt As Of 12/1/2011
Rockwall County	$6,919,171,893	$0.3864	$ 72,510,000 (1)	100.00%	$72,510,000 (1)	$87,695,000 (2)
Rockwall County Consolidated MUD #1	231,170,379	$0.7200	14,810,000	100.00%	14,810,000	83,905,000
Verandah MUD	56,399,357	$0.8500	3,365,000	1.77%	59,561	204,345,000
Cities						
City of Fate	464,740,025	0.2466	2,625,000	100.00%	2,625,000	-
City of Rockwall	3,159,089,446	0.5031	151,375,000	100.00%	151,375,000	1,400,000
County-Line Cities						
City of Dallas	81,218,662,529	0.7970	1,798,332,086	0.01%	179,833	610,312,600
City of Heath	1,087,432,894	0.3433	21,790,000	100.00%	21,790,000	-
City of Rowlett	3,175,680,756	0.7472	77,130,000	14.66%	11,307,258	3,960,000
City of Royse City	471,536,143	0.6729	22,140,000	79.39%	17,576,946	-
City of Wylie	2,364,091,842	0.8989	115,761,930	1.73%	2,002,681	-
Total Cities					206,856,719	
County-Line School Districts						
Rockwall ISD	5,853,621,307	1.4700	346,468,119	99.36%	344,250,723	50,200,000
Royse City ISD	1,084,927,878	1.6100	113,250,794	77.56%	87,837,316	-
Total School Districts					432,088,039	
Total Direct and Consolidated Overlapping Tax Debt					$ 726,324,318	
Ratio of Direct and Consolidated Overlapping Tax Debt to Taxable Assessed Valuation					10.50%	
Per Capita Consolidated Overlapping Tax Debt					$ 7,469	

(1) Includes the Bonds.
(2) Excludes the Bonds.

DEBT INFORMATION

TABLE 9 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Tax Debt Service (1)			The Bonds (2)			Net Total Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2012	$ 2,590,000	$ 2,373,050	$ 4,963,050	$ -	$ -	$ -	$ 4,963,050	
2013	2,555,000	2,286,602	4,841,602	-	899,282	899,282	5,740,884	
2014	2,660,000	2,191,115	4,851,115	-	567,968	567,968	5,419,082	
2015	2,555,000	2,091,694	4,646,694	435,000	561,443	996,443	5,643,137	
2016	2,330,000	1,999,394	4,329,394	675,000	541,418	1,216,418	5,545,811	19.03%
2017	2,410,000	1,910,628	4,320,628	705,000	513,818	1,218,818	5,539,446	
2018	2,515,000	1,815,088	4,330,088	730,000	485,118	1,215,118	5,545,205	
2019	2,245,000	1,719,294	3,964,294	760,000	459,118	1,219,118	5,183,411	
2020	2,340,000	1,625,916	3,965,916	780,000	436,018	1,216,018	5,181,934	
2021	2,445,000	1,528,358	3,973,358	810,000	408,118	1,218,118	5,191,475	40.74%
2022	2,270,000	1,431,542	3,701,542	845,000	372,905	1,217,905	4,919,447	
2023	2,365,000	1,334,076	3,699,076	885,000	333,980	1,218,980	4,918,056	
2024	2,465,000	1,230,295	3,695,295	915,000	301,486	1,216,486	4,911,781	
2025	2,575,000	1,120,167	3,695,167	940,000	274,805	1,214,805	4,909,972	
2026	2,690,000	1,004,170	3,694,170	970,000	245,549	1,215,549	4,909,719	64.07%
2027	2,810,000	881,951	3,691,951	1,000,000	214,393	1,214,393	4,906,344	
2028	2,045,000	771,334	2,816,334	1,035,000	181,315	1,216,315	4,032,649	
2029	2,145,000	672,523	2,817,523	1,070,000	145,513	1,215,513	4,033,035	
2030	2,255,000	565,516	2,820,516	1,110,000	107,363	1,217,363	4,037,879	
2031	2,375,000	450,811	2,825,811	1,150,000	66,375	1,216,375	4,042,186	87.51%
2032	2,490,000	329,894	2,819,894	1,195,000	22,406	1,217,406	4,037,300	
2033	2,615,000	202,600	2,817,600	-	-	-	2,817,600	
2034	2,755,000	68,694	2,823,694	-	-	-	2,823,694	100.00%
	$ 56,500,000	$ 29,604,710	$ 86,104,710	$ 16,010,000	$ 7,138,386	$ 23,148,386	$ 109,253,096	

(1) "Outstanding Debt" does not include the lease/purchase obligations.
(2) Average life of the issue – 12.570 years.

TABLE 10 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/12		$ 4,963,050
Interest and Sinking Fund, Fiscal Year Ending 9/30/11(1)	$ 1,218,315	
Delinquent Taxes, Penalty and Interest Fiscal Year Ending 9/30/12	884,338	
Interest Income FY 9/30/12	-	
Budgeted Interest and Sinking Fund Tax Levy 2011/2012	4,486,485	6,589,138
Estimated Fund Balance, Fiscal Year Ending 9/30/12		$ 1,626,088

(1) Unaudited.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued		Unissued Balance
Roads	11/2/2004	$ 17,250,000	$10,580,000	$ 6,670,000		$ -
Roads	11/4/2008	100,000,000	2,500,000	9,805,000	*	87,695,000
Total		$117,250,000	$13,080,000	$16,475,000		$ 87,695,000

* Includes premium on the Bonds in the amount of $465,000 allocated to voted authorization.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . .

The County anticipates the issuance of approximately $25.5 million in additional unlimited tax road bonds in October of 2012.

TABLE 12 – OTHER OBLIGATIONS

The County is a sponsoring local government in the Rockwall County Emergency Services Corporation (the "Corporation") which was designed to finance projects where joint facilities and operations may be utilized between participating members. The Corporation was created to provide emergency services and public safety services on behalf of and as may be determined from time to time by the City of Fate, the City of Heath, the City of McLendon Chisholm, the City of Mobile City, the City of Rockwall, the City of Rowlett, the City of Royse City and Rockwall County, Texas (collectively, the "Sponsoring Local Governments").

The Corporation's initial major initiative was to provide effective and efficient ambulance services to participating entities in Rockwall County on a cost-sharing basis. This is now an ongoing function of the Corporation and is carried out via a contract with an ambulance service firm. The contract was recently re-written and established as a five year contract with five optional renewal periods of one-year each.

The Corporation entered into a contract with the County to organize and staff an emergency preparedness activity. Initial staffing began toward the latter part of fiscal year 2007 with the hiring of a qualified coordinator and other support staff. This is now an on-going operation of the corporation as a contracted activity.

The Corporation also strives to ensure all area law enforcement personnel are properly trained through a regional firearms training facility, the cost of which is shared among the participating entities on a prorated basis. To achieve this, it authorized the issuance of revenue bonds and received proceeds of $2,700,000 for construction of a county-wide firearms training facility on October 5, 2006. This training facility is for the use of each entity in the Corporation. This is an on-going function of the Corporation, primarily involving the retirement of the construction debt.

These initiatives have resulted in the Corporation providing services via the following three key activities:

1. Ambulance Services
2. Emergency Management Services
3. Law Enforcement Firing Range Services

The following table details the County's fiscal year 2011 expenditures and budgeted fiscal year 2012 obligations to the Corporation:

Emergency Services Corporation	Fiscal Year 2011 Actual	Fiscal year 2012 Budgeted
Administrative Costs	$ -	$ 2,800
Administrative Ambulance Consulting	6,615	6,615
Ambulance Subsidy	232,269	235,378
Firing Range Operations(1)	4,957	5,303
Firing Range Debt(1)	103,744	120,622
Emergency Management	53,479	77,377

(1) The Corporation issued bonds in 2006 to fund the Law Enforcement Training Facility. The table above does not include contributions made by other Sponsoring Local Governments.

PENSION FUND . . . Rockwall County provides retirement, disability, and death benefits for all of its regular fulltime and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer retirement system consisting of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the Commissioners' Court of the County. within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and county-financed monetary credits. The level of these credits is adopted by the Commissioners' Court of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the County's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the county-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy - The employer has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the required contribution rate of the employer is actuarially determined annually. The employer may contribute at an elected contribution rate that is higher. For the months of October, November, and December in 2009, the employer contributed at an elected rate of 9% versus the required rate of 6.36%. For 2010, the employer contributed the 9% required rate.

The deposit rate payable by the employee members for calendar year 2010 is the rate of 7% as adopted by the Commissioners' Court of the County. The employee deposit rate and the employer deposit rate may be changed by the Commissioners' Court of the County within the options available in the TCDRS Act.

Annual Pension Cost - For the employer's accounting year ended September 30, 2010, the annual required contribution for the TCDRS plan was $1,065,073, and the actual contributions were $2,660,569. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2008 and December 31, 2007, the basis for determining the contribution rates for calendar years 2010 and 2009. The December 31, 2009, actuarial valuation is the most recent valuation.

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/2008	12/31/2009	12/31/2010
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30	30	30
Asset valuation method	SAF: 10-yr smoothed value	SAF: 10-yr smoothed value	SAF: 10-yr smoothed value
UAAL as a Percentage of Covered Payroll	ESF: Fund value	ESF: Fund value	ESF: Fund value
Actuarial Assumptions			
Investment return	8.0%	8.0%	8.0%
Projected salary increases	5.3%	5.4%	5.4%
inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

Trend Information for the
Retirement Plan for the Employees of Rockwall County, Texas

Fiscal Year	2009	2010	2011
Annual required contribution (ARC)	$ 1,141,902	$ 1,065,073	$ 922,984
Interest on net pension obligation	(160,000)	(162,836)	(345,338)
Adjustment to ARC	124,544	474,565	547,729
Annual pension cost	$ 1,106,446	$ 1,376,802	$ 1,125,375
Contributions made	(1,141,902)	(3,660,569)	(1,470,714)
Net pension obligation (asset), beginning of year	$ (2,000,000)	$ (2,035,456)	$ (4,319,223)
Change in net pension obligation (asset)	(35,456)	(2,283,767)	(345,539)
Net pension obligation (asset), end of year	$ (2,035,456)	$ (4,319,223)	$ (4,664,762)
Percentage of APC contributed	103.2%	265.9%	130.7%

Schedule of Funding Progress for the Retirement Plan
For the Employees of Rockwall County, Texas

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ Overfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Coverage Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2008	$ 20,062,445	$ 21,573,217	$ 1,510,772	93.00%	$ 12,159,972	12.42%
2009	25,243,417	25,254,555	11,138	99.96%	13,528,784	0.08%
2010	27,463,296	27,374,972	(88,324)	100.32%	12,967,683	-0.68%

OTHER POST-EMPLOYMENT BENEFITS The County provides certain health care and life insurance benefits, under county policy, for all active employees upon retirement that meet one of the following requirements: age 60 with 8 or more years of service, at least 30 years of service at any age, or a combined age plus service of at least 75.

A retiree may choose to receive health care coverage through the County's self-insured plan if retiring prior to age 65 or the retiree may choose to obtain coverage through the CountyChoice Silver *plan* offered by Texas Association of Counties if retiring at age 65 or older. As noted, it is the retiree's option to choose either based upon age and other qualifying requirements when retirement occurs. The retiree is free to choose an independent plan for coverage. To offset the cost of health care coverage, the County provides a $200 monthly stipend to qualified retirees. Spouses are not eligible for the stipend unless they are also qualified County retirees. The stipend applies to both pre-65 and post-65 retirees. The stipend benefit is subject to approval by the Commissioners' Court on an annual basis. The stipend benefit has been offered to qualified retirees since 2002, although amounts have changed over time.

Expenses for post-retirement health care benefits are recognized on a pay-as-you-go basis. During the year, post-retirement health care benefits paid by the County were $68,965. The County does not produce separately issued financial statements for the benefit plan.

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

Annual Required Contribution (ARC)	$ 221,000
Interest on Net OPEB Obligation	-
Adjustmene to the ARC	-
Annual OPEB Cost	$ 221,000
Employer Contributions with Interest	74,155
Increase (Decrease) in Net OPEB Obligation	$ 146,845
Net OPEB Obligation, beginning of year	345,417
Net OPEB Obligation, end of year	$ 492,262

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (5% discount rate, and level percent of pay amortization).

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net OPEB Obligation
9/30/2009	$ 221,000	$ 36,827	17%	$ 184,173
9/30/2010	221,000	68,965	31%	345,417
9/30/2011	221,000	74,155	34%	146,845

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
9/30/2008	$ -	$ 1,593,000	$ 1,593,000	0%	$ 13,275,117	12.00%

This is the third year of implementation for GASB Statement No. 45 for the County. Only one actuarial evaluation has been required in this time period. Therefore, only one year is available for presentation on the Schedule of Funding Status and Funding Progress.

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumption about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions – Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the County and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. The 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, consistent with the long-term perspective of the calculations.

The actuarial methods and significant assumptions used are as follows:

Actuarial Valuation Date	9/30/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of payroll
Remaining Amortization Period	30 years; open
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5%
Payroll Growth Rate	3%
Projected Salary Increases	4%
General Inflation Rate	3%
Healthcare cost trend rate	11%
the number of active members is assumed to remain constant in the future	

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FINANCIAL INFORMATION

TABLE 13 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2011[1]	2010	2009	2008	2007
REVENUES					
Program Revenues:					
Charges for Services	$ 5,326,099	$ 5,502,718	$ 5,772,058	$ 5,890,857	$ 7,899,370
Operating Grants and Contributions	362,012	580,869	592,280	754,289	318,581
Capital Grants and Contributions	207,175	280,025	174,944	189,753	-
General Revenues:					
Property Taxes	26,506,862	26,080,238	25,376,377	22,540,006	19,529,973
Other Taxes	395,068	467,727	442,610	-	-
Interest Earnings	213,822	257,275	544,417	1,243,200	1,657,302
Miscellaneous	-	56,982	65,812	586,173	581,455
Total Revenues	$ 33,011,038	$ 33,225,834	$ 32,968,498	$ 31,204,278	$ 29,986,681
EXPENSES					
General government	$ 3,578,330	$ 2,996,862	$ 3,430,482	$ 4,911,158	$ 5,607,410
Judicial	2,860,269	2,564,139	2,481,227	2,371,285	2,088,514
Legal	1,638,678	1,507,743	1,406,330	1,289,152	1,170,020
Financial Administration	1,405,167	1,762,344	1,712,324	1,437,998	1,455,287
Public Facilities	835,684	832,497	768,406	894,060	917,639
Public Safety	9,473,807	10,732,615	10,226,058	9,677,827	8,109,613
Public Service	657,787	994,641	949,547	870,537	804,559
Roads and Bridges	1,787,956	1,901,293	1,647,367	1,692,275	1,469,238
Health and Welfare	721,240	1,013,718	1,043,861	934,664	766,869
Culture and Recreation	1,342,872	1,520,001	1,498,637	1,316,823	703,138
Conservation	135,383	133,711	143,294	117,413	125,278
Capital Outlay	-	-	-	-	-
Interest on Long-Term Debt	2,560,143	2,655,252	1,859,758	1,184,575	585,944
Other	-	-	-	-	-
Total Expenses	$ 26,997,316	$ 28,614,816	$ 27,167,291	$ 26,697,767	$ 23,803,509
CHANGE IN NET ASSETS	6,013,721	4,611,018	5,801,207	4,506,511	6,183,172
INCREASE IN NET ASSET	$ 6,013,721	$ 4,611,018	$ 5,801,207	$ 4,506,511	$ 6,183,172
NET ASSETS, BEGINNING	49,972,967	45,103,494	37,302,287	30,578,312	23,859,439
Prior Period Adjustment	(10)	258,455	2,000,000	2,217,464	535,701
NET ASSETS, ENDING	$ 55,986,678	$ 49,972,967	$ 45,103,494	$ 37,302,287	$ 30,578,312

(1) Unaudited.

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TABLE 13-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2011[1]	2010	2009	2008	2007
Revenues:					
Taxes	$ 20,773,385	$ 20,497,734	$ 20,268,186	$ 19,166,052	$ 16,963,100
Fees and Commissions	1,863,788	2,188,121	2,348,462	2,227,346	2,602,540
Fines and Forfeitures	1,028,700	1,093,613	1,090,953	1,242,546	1,199,902
Interest	126,802	139,706	231,018	670,769	-
Intergovernmental	966,259	22,440	21,080	26,962	25,092
Miscellaneous and Other	6,415	421,233	488,317	409,001	510,263
Total Revenues	$ 24,765,349	$ 24,362,847	$ 24,448,016	$ 23,742,676	$ 21,300,897
Expenditures:					
General Administration	$ 2,124,054	$ 3,908,891	$ 2,426,227	$ 4,363,495	$ 2,852,104
Judicial and Law Enforcement	2,860,269	2,480,031	2,397,850	2,336,181	2,081,265
Legal	1,638,278	1,425,043	1,375,908	1,300,873	1,159,882
Financial Administration	1,405,167	1,694,096	1,702,817	1,451,139	1,374,125
Public Facilities	835,684	975,657	945,362	870,644	917,639
Public Safety	9,473,807	9,489,732	9,397,882	9,437,815	7,835,494
Health and Welfare	421,240	998,039	1,041,453	937,942	766,869
Culture and Recreation	1,342,872	1,320,627	1,325,414	1,066,922	596,324
Conservation	135,383	129,166	145,075	120,691	106,909
Roads and Bridges		-	-	-	-
Capital Improvements	-	-	-	-	-
Nondepartmental	1,793,804	668,794	642,138	747,347	343,931
Capital Outlay	316,326	906,296	291,887	1,311,337	1,152,259
Debt Service	-	-	-	24,963	42,963
Total Expenditures	$ 22,346,885	$ 23,996,372	$ 21,692,013	$ 23,969,349	$ 19,229,764
Excess (Deficiency) of Revenues Over Expenditures	$ 2,418,464	$ 366,475	$ 2,756,003	$ (226,673)	$ 2,071,133
Proceeds from Debt Issuance	-	-	-	2,000,000	1,250,000
Interest Income/ Sale of Assets	8,703	96,580	23,209	8,374	1,149,952
Operating Transfers In	32,000		-	41,676	-
Operating Transfers Out	(3,246,076)	(590,664)	(1,611,083)	(151,448)	(352,635)
Total Transfers	$ (3,205,373)	$ (494,084)	$ (1,587,874)	$ 1,898,602	$ 2,047,317
Residual Equity Transfer		$ -	$ -	$ -	$ -
Beginning Fund Balance	20,867,180	20,994,789	19,826,660	18,513,756	13,836,914
Prior Period Adjustment	(10)	-	-	(359,025)	558,392
Ending Fund Balance	$ 20,080,260	$ 20,867,180	$ 20,994,789	$ 19,826,660	$ 18,513,756

(1) Unaudited.

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FINANCIAL ADMINISTRATION . . . Under the Texas Constitution and other Texas law, financial administration is the responsibility of the Commissioners Court, both as to policy and execution. The County Auditor assists the Commissioners Court in budget preparation, financial recordkeeping, and auditing.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the County conform to generally accepted accounting principles for governmental entities as promulgated by the Government Accounting Standards Board. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the combined balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the combined balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (revenues) and decreases (expenses) in net total assets.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recorded when the related fund liability is incurred. However, principal of and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Major revenue sources which have been treated as susceptible to accrual under the modified basis of accounting include property taxes, charges for services, intergovernmental revenues, and investment of idle funds.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred.

The County reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Budgetary Procedures . . . The budget is prepared by the County staff and approved by the Commissioners Court following departmental budget reviews and a public hearing. A copy of the budget must be filed with the County Clerk and the County Auditor and made available to the public. The Commissioners Court must provide for a public hearing on the budget on some date within seven calendar days after the filing of the budget and prior to October 31 of the current fiscal year.

INVESTMENTS

The County invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Commissioners Court of the County. Both State law and the County's investment policies are subject to change.

LEGAL INVESTMENTS . . . Under Texas law, the County is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State of Texas, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by Limited Tax Bonds described in clauses (1) through (6) or in any other manner and amount provided by law for County deposits, or (ii) where; (a) the funds are invested by the County through a depository institution that has a main office or branch office in this state and that is selected by the County; (b) the depository institution selected by the County arranges for the deposit of funds in one or more federally insured depository institutions, wherever located; (c) the certificates of deposit are insured by the United States or an instrumentality of the United States; (d) the depository institution acts as a custodian for the County with respect to the certificates of deposit; and (e) at the same time that the certificates of deposit are issued, the depository institution selected by the County receives deposits from customers of other federally insured depository institutions, wherever located, that is equal to or greater than the funds invested by the County through the depository institution selected under clause (ii)(a) above, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the County, held in the County's name and deposited at the time the investment is made with the County or a third party designated by the County; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-loan money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share and (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The County may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent rating by at least one nationally recognized rating service and meet other requirements listed in Section 2256.016 of the Texas Public Funds Investment Act (the "PFIA"). The County 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 County retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the County must do so by order, ordinance, or resolution.

Notwithstanding the preceding, the County may not invest in obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest; or collateralized mortgage obligations that have a stated final maturity date of greater than ten years or the interest rate of which is determined by an index that adjusts opposite to the changes in a market index. The County may not invest in the aggregate more than 15% of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for debt service, in mutual funds described in clause (13) above, and may not invest any portion of bond proceeds, reserves, and funds held for debt service in mutual funds described in clause (13) above. Nor may the County invest its funds or funds under its control, including bond proceeds, reserves, and other funds held for debt service, in any one mutual fund described in clauses (12) or (13) above in an amount that exceeds 10% of the total assets of the mutual fund. The County must also restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement proceeds to no greater than the term of the reverse repurchase agreement.

INVESTMENT POLICIES . . . Under State law, the County is required to invest its funds under a written investment policy that primarily emphasizes safety of principal and liquidity; that addresses investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for County funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups. All County funds must be invested in accordance with a formally adopted "Investment Strategy Statement" which specifically addresses each fund's or each group of fund's investment. Each Investment Strategy Statement will describe the investment objectives for the fund or group of funds in question to address specifically: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

Under State law, County 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." No person may invest County funds without express written authority from the Commissioners Court. At least quarterly, the investment officers of the County must submit an investment report to the Commissioners Court which is prepared jointly and signed by all investment officers and which meets the reporting requirements of Section 2256.023 of the PFIA.

ADDITIONAL PROVISIONS . . . Under State law, the County is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the County to disclose the relationship and file a statement with the Texas Ethics Commission and the Commissioners Court; (4) require the registered principal of firms seeking to sell securities to the County to: (a) receive and review the County's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the County's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, and other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in nonmoney market mutual funds in the aggregate to no more than 15% of the County's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and prohibit the investment in non-money market mutual funds of any portion of bond proceeds, reserves and 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 County.

The County's investment policy requires that its funds be invested in accordance with State law. The County generally invests in public fund investment pools or obligations of the United States or its agencies and instrumentalities.

TABLE 14 - CURRENT INVESTMENTS

As of November 30, 2011, the County's investable funds were invested in the following categories:

Type of Investment	Book Value	% of Investments	Market Value	% of Investments
Federal Agency Securities	$ 8,800,000	32.27%	$ 8,808,728	32.30%
Checking & MMA	333,407	1.22%	333,407	1.22%
Logic/General [1]	133,549	0.49%	133,549	0.49%
Logic/Road bonds [1]	3,504,032	12.85%	3,504,032	12.85%
Logic/Courthouse bonds [1]	759,272	2.78%	759,272	2.78%
MBIA/Cutwater-General	4,550,327	16.69%	4,550,327	16.68%
MBIA/Cutwater-Multiple	1,827,738	6.70%	1,827,738	6.70%
MBIA/Cutwater-Debt Svs	1,402,157	5.14%	1,402,157	5.14%
MBIA-Veterans Memorial	46,120	0.17%	46,120	0.17%
TexStar [2]	751,631	2.76%	751,631	2.76%
TexPool	5,158,655	18.92%	5,158,655	18.91%
	$ 27,266,888	100.00%	$ 27,275,616	100.00%

(1) 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.

(2) 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 pool. 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.

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TAX MATTERS

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

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the County 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, 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 a portion of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

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

Tax Accounting Treatment of Original Issue Discount Bonds

The issue price of a portion of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “Tax Matters – Tax Exemption” and Tax Matters – Additional Federal Income Tax Considerations – Collateral Tax Consequences” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

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

Long First Coupon Consequences

Because the first interest payment on the Bonds will be made more than one year after the issue date, the Bonds may be treated as issued at an original issue discount under the Treasury Regulations. Although the interest on the Bonds will be excludable from gross income as discussed above, the interest on the Bonds may be considered original issue discount for federal tax purposes. As a result, special tax accounting rules for original issue discount may require a portion of certain interest payments to be taken into account for the taxable year or years prior to the taxable year during which the interest payment is received for purposes of any alternative minimum taxable income consequences for corporations and any collateral federal income tax consequences for certain purchasers. For a discussion of the tax accounting treatment of original issue discount on the Bonds, see the discussion above under “Tax Matters-Additional Federal Income Tax Considerations-Tax Accounting Treatment of Original Issue Discount 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 Bond Order, the County has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The County is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the County will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at http://www.emma.msrb.org/.

ANNUAL REPORTS . . . The County will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the County of the general type included in this Official Statement under Tables numbered 1 through 7 and 9 through 14 and in Appendix B. The County will update and provide this information within six months after the end of each fiscal year.

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 County commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the County 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 County may be required to employ from time to time pursuant to State law or regulation.

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

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

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the County 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 County, 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 County.

AVAILABILITY OF INFORMATION . . . The County has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The County has agreed to update information and to provide notices of material events only as described above. The County 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 County 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 County 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 County to comply with its agreement.

The County 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 County, 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 County (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 County 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 County 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 . . . Over the last five years the County has complied in all material respects with its prior undertakings pursuant to SEC Rule 15c2-12.

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OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax supported debt of the County is rated "Aa2" by Moody's, "AA" by S&P and “AA” by Fitch, without regard to third-party 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 County 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 such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision, or withdrawal of such ratings, may have an adverse effect on the market price of the Bonds.

Additionally, due to the ongoing uncertainty regarding the debt of the United States of America, including without limitation, the general economic conditions in the country, and other political and economic developments that may affect the financial condition of the United States government, the United States debt limit, and the bond ratings of the United States and its instrumentalities, obligations issued by state and local governments, such as the Bonds, could be subject to a rating downgrade. Furthermore, if a significant default or other financial crisis should occur in the affairs of the United States or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, such as the Bonds.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at 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 County 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 County will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and binding obligation of the County, 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 Bond Order are valid and legally binding obligations of the County and the interest on the 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 including alternative minimum tax consequences for corporations. A form of such opinion is attached hereto as Appendix C. Bond Counsel 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 "THE BONDS" (except for the subcaptions "Book-Entry-Only System" and "Bondholders Remedies"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Investments and Eligibility to Secure Public Fund in Texas", and "Legal Matters" under the caption "OTHER INFORMATION" and such firm is of the opinion that the information relating to the Bonds and the Bond Order 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 Underwriters by West & Associates, L.L.P., Dallas, Texas, Counsel to the Underwriters. The legal fees to be paid to Underwriters' Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from County records, audited financial statements and other sources which the County believes 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 orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the County 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, has relied on the opinions of Bond Counsel and has not verified and 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 County 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 County and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the County, at the prices set forth on page 2 of the Official Statement at an underwriting discount of $107,895.20. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have 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 Underwriters do not guarantee the accuracy or completeness of such information.

On January 11, 2012, Regions Financial Corporation, Morgan Keegan's parent company, entered into a definitive agreement to sell Morgan Keegan to Raymond James Financial. The transaction is expected to close on or before March 31, 2012.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the County, that are not purely historical, are forward-looking statements, including statements regarding the County'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 County on the date hereof, and the County assumes no obligation to update any such forward-looking statements. The County'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 County. 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 County'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 Bond Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Bonds by the Underwriters.

JERRY HOGAN
County Judge
Rockwall County, Texas

ATTEST:

SHELLI MILLER
County Clerk

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APPENDIX A

GENERAL INFORMATION REGARDING THE COUNTY

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ROCKWALL COUNTY

THE COUNTY . . . Rockwall County is a north central Texas county, a component of the Dallas Primary Metropolitan Statistical Area, and the smallest county in Texas. The County was created and organized in 1873 from Kaufman County, and was named for wall-like rock formations. The City of Rockwall (the "City") is the County Seat and principal commercial center in the County. Other cities and towns include Fate, Heath and McLendon-Chisholm. Royse City is partially located in the County, Hunt County and Collin County, while small portions of Rowlett and Wylie are predominantly located in Dallas and Collin Counties, respectively.

The Commissioners Court is comprised of the County Judge, who is the presiding officer, and four County Commissioners who hold the responsibility for the financial administration of the County. The Commissioners Court relies upon the County Auditor and County Treasurer for reporting and control of the County's finances. The Commissioners are elected for a four-year term to represent one of four precincts. Their tasks while they are in office is to approve the County's budget, set the County's tax rates, call elections, approve contracts and determine when to issue debt authorized by the voters of the County.

CITY OF ROCKWALL

LOCATION . . . The City of Rockwall, Texas, County Seat and principal commercial center of Rockwall County, is located 30 miles east of Dallas on Interstate Highway 30 and State Highways 66 and 205. Included in the City's corporate boundaries are 15.15 square miles of land. Lake Ray Hubbard, a major water supply facility for the City of Dallas, forms the City's western corporate limits.

ECONOMY . . . Development of primarily single-family residences have been stimulated by the City's prime location on the shores of Lake Ray Hubbard and its close proximity to the Dallas Metropolitan Area. A water supply provided by the North Texas Municipal Water District, an active Industrial Development Program and available industrial sites place the City in a favorable position for future commercial and industrial expansion.

The recreational facilities provided by Lake Ray Hubbard and accessibility to the Dallas Metropolitan Area have resulted in increased tourist trade and residential development in the City at a rapid rate. Population in the City has increased from 5,939 in 1980 to 37,490 in 2010. The 2012 estimated population is 38,094. In addition, office and retail development is continuing at a steady pace.

The City is accessible via Interstate Highway 30 and State Highways 66 and 205. The City is served by major bus and motor freight lines, and a municipal airport.

INDUSTRY AND BUSINESS . . Listed below is a selection of businesses within Rockwall County per the Rockwall Economic Development Corporation (www.rockwalledc.org):

Company	Product	Estimated Number of Employees
Rockwall ISD	Education	1600
Royse City ISD	Education	703
Lake Pointe Medical Center	Hospital	600
Wal-Mart Superstore	Retail Store	492
Texas Star Express	Trucking	484
Texas Health Presbyterian Hospital	Hospital	419
Rockwall County	Government	296
City of Rockwall	Government	250
Hilton Bella Harbor Hotel	Hotel	250
Columbia Commerical Manufacturer	Commerical windows	250
Target	Retail Store	200
Kroger Food	Food Store	200
Special Products & Mfg	Precision Sheet Metal	190
Rockwall Nursing Home	Nursing Home	141
Kohl's Department Store	Retail Store	130
Home Depot	Retail Store	120
Lowe's Home Centers	Retail Store	120

EDUCATIONAL FACILITIES . . . The County is served by both the Rockwall Independent School District and the Royse City ISD. The RISD consists of twelve elementary schools, three middle schools and two high schools. The present enrollment of the District is over 14,300 students and employs approximately 800 teachers. The RCISD consists of four elementary schools, two intermediate schools, one middle school and one high school. The present enrollment of the District is 4,400 students and employs approximately 700 employees.

LABOR FORCE STATISTICS . . . Employment statistics for Rockwall County are as follows:

	Average Annual				
	2011(1)	2010	2009	2008	2007
Civilian Labor Force	40,677	40,033	38,488	37,554	37,065
Total Employment	37,583	37,007	35,684	35,841	35,591
Total Unemployment	3,094	3,026	2,804	1,713	1,474
Percent Unemployment	7.61%	7.56%	7.29%	4.56%	3.98%

(1) Averages as of October 2011.
Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE

ROCKWALL COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2010

The information contained in this Appendix consists of excerpts from the Rockwall County, Texas Annual Financial Report for the Year Ended September 30, 2010, and is not intended to be a complete statement of the County's financial condition. Reference is made to the complete Report for further information.

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PB&H
PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Honorable County Judge
and Honorable Commissioners' Court
Rockwall County, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Rockwall County, Texas (the "County) as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Rockwall County, Texas as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2011, on our consideration of Rockwall County, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

401 WEST HIGHWAY 6 ■ P. O. BOX 20725 ■ WACO, TX 76702-0725 ■ (254) 772-4901 ■ FAX: (254) 772-4920 ■ www.pbhcpa.com
AFFILIATE OFFICES: BROWNSVILLE, TX (956) 544-7778 ■ HILLSBORO, TX (254) 582-2583
TEMPLE, TX (254) 791-3460 ■ ALBUQUERQUE, NM (505) 266-5904

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 50 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Pattillo, Brown & Hill, L.L.P.

May 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the County of Rockwall, Texas' (the "County") Annual Financial Report presents a discussion and analysis of the County's financial performance during the fiscal year that ended September 30, 2010. Readers should consider the information in this section when reading the overall report, including the transmittal letter, financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

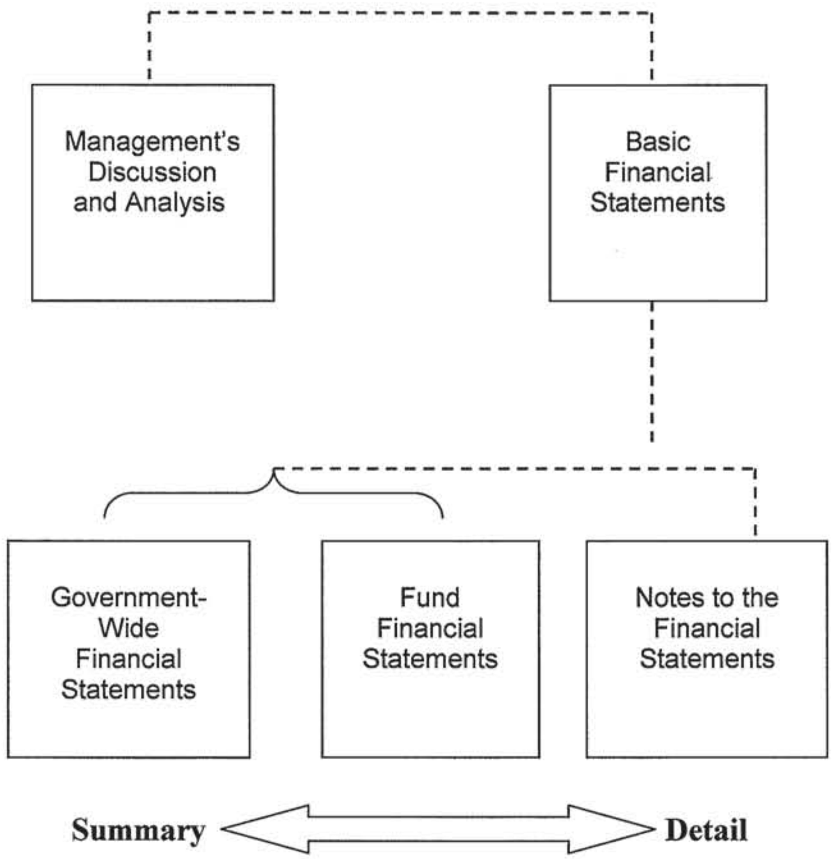
As illustrated in Figure A-1, the government-wide financial statements provide information about the County as a whole using the economic resources measurement focus and accrual basis of accounting.

- The assets of Rockwall County exceeded its liabilities at the close of the fiscal year by $49,972,967 (net assets).
- The County's total net assets increased by $4,611,018, not including prior period adjustments, due to increases in the government-type activities net assets.
- As of the close of the current fiscal year, Rockwall County's governmental funds reported combined ending fund balances of $58,747,325, a decrease of $4,106,085, in comparison with the prior year. Of this amount, $27,548,339 is available for spending at the County's discretion (unreserved fund balance) of which $6,681,159 must be spent for the purposes specified for special purpose funds. Included in this amount is $2,784,502 for the Road and Bridge Fund and $1,516,795 for the County Clerk's Record Management and Preservation Fund.
- At the end of the current fiscal year, the unreserved fund balance for the General Fund was $20,867,180, or 87% of total General Fund expenditures.
- The County issued $8,815,000 in refunding debt.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. The basic financial statements present two different views of the County through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of Rockwall County.

Figure A-1
Required Components of
Rockwall County's Annual Financial Report



Basic Financial Statements

The first two statements (pages 13 and 14) in the basic financial statements are the *government-wide financial statements*. They provide both short and long-term information about the County's financial status.

The next statements (pages 15 through 23) are *fund financial statements*. These statements focus on the activities of the individual parts of the County's government. These statements provide more detail than the government-wide statements. After the notes, *supplemental information* is provided to show details about the County's individual funds. Budgetary information required by the general statutes also can be found in this part of the statements.

Government-wide Financial Statements – The government-wide financial statements, which begin on page 13 of this report, are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the County's financial status as a whole.

The two government-wide statements report the County's net assets and how they have changed. Net assets are the difference between the County's total assets and total liabilities. Measuring net assets is one way to gauge the County's financial condition.

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

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

Both the government-wide financial statements distinguish functions of Rockwall County 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 activities). The governmental activities of the County include general government, public safety, judicial, and community services.

Fund Financial Statements – The fund financial statements provide a more detailed look at the County's most significant activities. 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 County of Rockwall, like all other governmental entities in Texas, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the general statutes or the County's budget ordinance. All of the funds of the County of Rockwall, Texas can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the County's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The County of Rockwall, Texas adopts an annual budget for its General Fund, as required by the general statutes. The budget is a legally adopted document that incorporates input from the citizens of the County, the management of the County, and the decisions of the Commissioners' Court about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows three columns: (1) the final budget as amended by the Commissioners; 2) the actual resources, variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – are used to report the same functions presented as business-type activities in the government-wide financial statements. Rockwall County uses proprietary funds to account for its internal service activity. These funds are the same as those functions shown in the business-type activities in the in the Statement of Net Assets and the Statement of Activities.

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 statement because the resources of those funds are *not* available to support Rockwall County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22 and 23 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 to 49 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the County's progress in funding its obligation to provide pension benefits to its employees and budget to actual schedule for the General Fund. Required supplementary information can be found beginning on page 50 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 53 to 66 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

The government-wide financial statements for the fiscal year ended September 30, 2010, continue the implementation of a new standard of financial reporting for Rockwall County, and many other units of government across the United States.

Figure A-2
ROCKWALL COUNTY'S NET ASSETS

	Governmental Activities	
	2010	2009
Current and other assets	$ 70,948,036	$ 70,543,156
Capital assets	43,988,822	38,006,781
Total assets	114,936,858	108,549,937
Long-term liabilities	60,243,827	60,587,137
Other liabilities	4,720,064	2,859,306
Total liabilities	64,963,891	63,446,443
Net assets:		
Invested in capital assets, net of related debt	15,496,008	13,714,108
Restricted	6,781,326	6,712,964
Unrestricted	27,695,633	24,676,422
Total net assets	$ 49,972,967	$ 45,103,494

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition; Figure A-2 provides a one-year comparison. The total assets of Rockwall County exceeded liabilities by $49,972,967 as of September 30, 2010. The County's net assets increased by $4,611,018, excluding prior period adjustments of $258,455, for the fiscal year ended September 30, 2010, [see Section IV.J in the notes for an explanation of these adjustments.] However, a large portion, 31.0% reflects the County's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt still outstanding that was issued to acquire those items. Rockwall County uses these capital assets to provide services to citizens: consequently, these assets are not available for future spending. Although Rockwall County's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

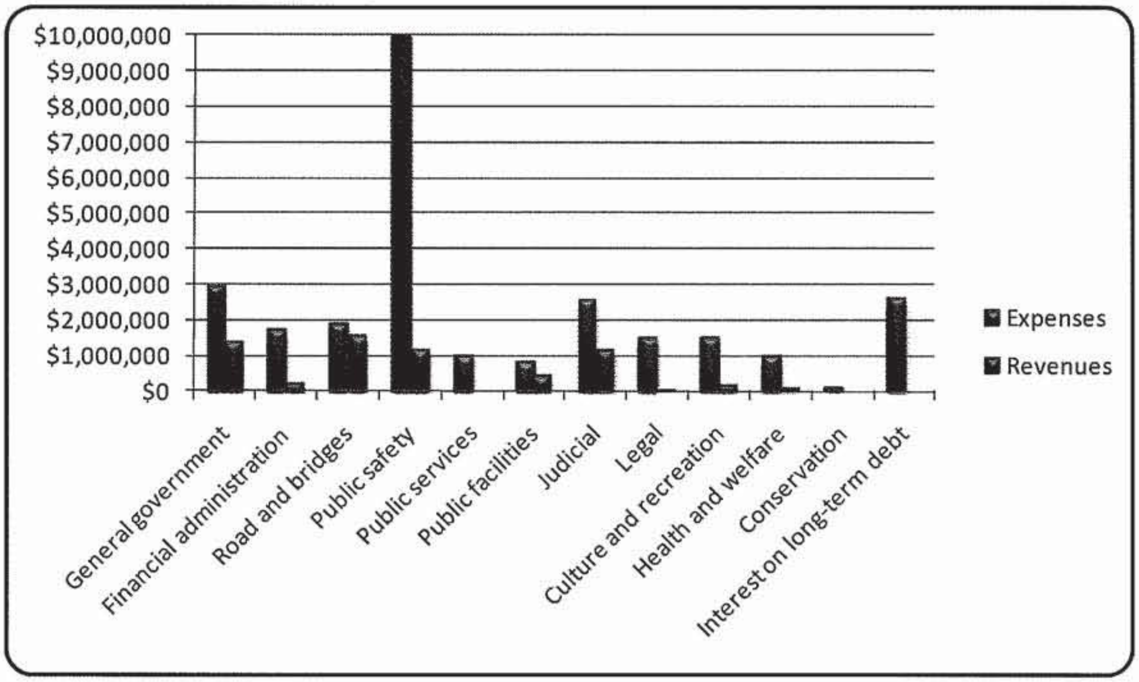
Analysis of the County's Operations – Figure A-3 provides a summary of the County's operations for the year ended September 30, 2010, and comparative data from 2009.

Figure A-3
ROCKWALL COUNTY'S NET ASSETS

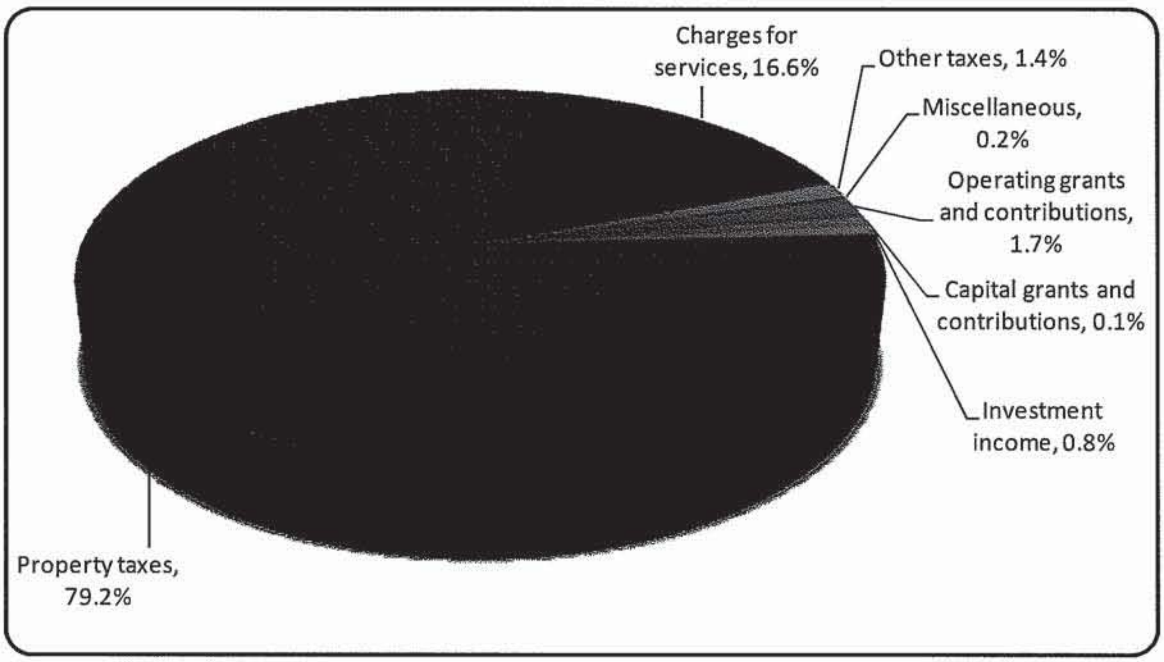
	Governmental Activities	
	2010	2009
REVENUES		
Program revenues:		
Charges for services	$ 5,502,718	$ 5,772,058
Operating grants and contributions	580,869	592,280
Capital grants and contributions	280,025	174,944
General revenues:		
Property taxes	26,080,238	25,376,377
Mixed drink taxes	221,537	207,816
Sales tax	246,190	234,794
Investment earnings	257,275	544,417
Miscellaneous	56,982	65,812
Total revenues	33,225,834	32,968,498
EXPENSES		
General government	2,996,862	3,430,482
Financial administration	1,762,344	1,712,324
Roads and bridges	1,901,293	1,647,367
Public safety	10,732,615	10,226,058
Public services	994,641	949,547
Public facilities	832,497	768,406
Judicial	2,564,139	2,481,227
Legal	1,507,743	1,406,330
Culture and recreation	1,520,001	1,498,637
Health and welfare	1,013,718	1,043,861
Conservation	133,711	143,294
Interest on long-term debt	2,655,252	1,859,758
Total expenditures	28,614,816	27,167,291
INCREASE IN NET ASSETS	4,611,018	5,801,207
NET ASSETS, BEGINNING	45,103,494	37,302,287
PRIOR PERIOD ADJUSTMENT	258,455	2,000,000
NET ASSETS, ENDING	$ 49,972,967	$ 45,103,494

Governmental-type Activities – Governmental-type activities increased the County's net assets $4,611,018, thereby accounting for 100% of the total growth in the net assets of the County of Rockwall. Key elements of this increase are property tax revenues, which increased by $703,861, or 2.8%.

Expenses and Program Revenues – Governmental Activities



Revenues by Source – Governmental Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, Rockwall County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the Rockwall County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. Specifically, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of Rockwall County. At the end of the current fiscal year, unreserved fund balance of the General Fund was $20,867,180. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 87% of total General Fund expenditures.

The County maintains 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
- Courthouse Construction Fund
- Road Improvement Bond 2008 Fund
- Debt Service Fund

Each of these funds is considered to be a major fund. Financial results from the other government funds are combined into a single, aggregated presentation and included in the total. Individual fund data for each of these nonmajor governmental funds are provided in the combining and individual fund statements and schedules.

The County adopts an annual appropriated budget for most of its governmental funds. A budgetary comparison statement is provided for County governmental funds, where a budget is adopted, to demonstrate compliance with the approved budget. Budgetary comparison statements for major governmental funds are presented as required supplementary information in the basic financial statements.

General Fund Budgetary Highlights – During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: (1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; (2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and (3) increases in appropriations that become necessary to maintain services.

Revenues were slightly more than the budgeted amounts mainly in the areas of fees and sales taxes. However, expenditures were generally in line with budgeted amounts.

Proprietary Funds – Currently, the County has only one type of proprietary fund – Internal Service. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The services provided benefit the various government functions they support, which is why they have been included within governmental activities in the government-wide financial statements. The County uses Internal Service funds to account for the following activities:

- Insurance Claims
- Employee Benefits Paid

Proprietary funds provide the same type of information as the government-wide financial statements, but with more detail. Internal Service Funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the Internal Service Funds are provided in the combining and individual fund statements and schedules.

Fiduciary Funds – The County's fiduciary fund consists of one trust fund and several agency funds. Agency funds are separate accounts and transactions related to money received that is collected for and remitted to another entity. For example, the County collects traffic fines; a portion of the fines belong to the state. After collection, the monies owed to the other entities are remitted to those entities on a periodic basis.

Notes to the Financial Statements – The notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes disclose other pertinent information that, when taken in whole with the financial statements, provide a more detailed picture of the state of the finances of the County.

Other Information – In addition to the basic financial statements accompanying notes to those financial statements, also presented in this report are certain required supplementary information schedules with additional information regarding the results of the County's financial activities.

The combining statements and individual fund schedules are presented immediately following the required supplementary information.

CAPITAL ASSETS

Rockwall County's investment in capital assets for its governmental activities as of September 30, 2010, totals $43,988,822 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment.

Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- The County continued work on road improvements;

- The County initiated design efforts on its new Courthouse and budgeted for the Veteran's Memorial to be constructed adjacent to the Courthouse.

ROCKWALL COUNTY'S CAPITAL ASSETS AT YEAR-END

	Governmental Activities 2010	Governmental Activities 2009
Land and improvements	$ 6,371,813	$ 6,371,813
Machinery and equipment	6,892,931	6,842,732
Buildings	12,159,743	11,976,438
Infrastructure	5,232,656	5,289,180
Construction in progress	24,553,295	17,236,296
Less: accumulated depreciation	(11,221,616)	(9,709,678)
Total	$ 43,988,822	$ 38,006,781

Additional information on the County's capital assets can be found in Note C on pages 36 – 37.

DEBT ADMINISTRATION

Long-term Debt – As of September 30, 2010, Rockwall County had total bonded debt outstanding of $59,075,000.

ROCKWALL COUNTY'S OUTSTANDING BONDS AS OF SEPTEMBER 30, 2010

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of obligation and tax notes	$ 60,060,000	$ 11,275,000	$ 12,260,000	$ 59,075,000

Rockwall County's bonded debt decreased by $985,000 (2%) during the current fiscal year, reflecting issuance of $8,815,000 in Limited Tax Refund Series 2010.

GENERAL FUND BUDGET HIGHLIGHTS FOR FISCAL YEAR ENDING SEPTEMBER 30, 2011

Governmental Activities – In preparation for the fiscal year 2011 budget, the County raised the ad valorem tax rate to $0.3864 per $100 assessed value. The total forecasted revenue for the year is $25,027,423. This is an increase of 2.57% from the 2010 projected revenue of $24,399,754. Budgeted expenditures of $28,302,105 reflect a 4.06% increase from fiscal year 2010.

REQUESTS FOR INFORMATION

This report is designed to provide an overview of the County's finances for those with an interest in this area. Questions concerning the information found in this report or requests for additional information should be directed to the Treasurer, or County Auditor, in Rockwall County, Texas.

BASIC
FINANCIAL STATEMENTS

ROCKWALL COUNTY, TEXAS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2010

ASSETS		
Cash and investments	$	50,198,664
Receivables (net of allowance for uncollectibles)		1,869,033
Restricted assets:		
Cash and cash equivalents		13,570,789
Prepaid expense		73,779
Interest receivable		14,156
Deferred charges		902,392
Net pension asset		4,319,223
Capital assets:		
Non-depreciable		30,925,108
Depreciable (net)		13,063,714
Total assets		114,936,858
LIABILITIES		
Accounts payable		3,522,847
Claims payable		152,206
Accrued liabilities		460,057
Due to others		15,731
Interest payable		569,223
Noncurrent liabilities:		
Due within one year:		
Tax notes		2,585,780
Compensated absences		116,260
Due in more than one year:		
Tax notes		56,731,332
Compensated absences		465,038
Net OPEB obligation		345,417
Total liabilities		64,963,891
NET ASSETS		
Invested in capital assets, net of related debt		15,496,008
Restricted for:		
Roads and bridges		2,789,095
Debt service		95,574
Other purposes		3,896,657
Unrestricted		27,695,633
Total net assets	$	49,972,967

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets: Governmental Activities
Primary government					
Governmental activities:					
General government	$ 2,996,862	$ 1,238,398	$ 116,705	$ 37,803	$(1,603,956)
Financial administration	1,762,344	235,856	-	-	(1,526,488)
Roads and bridges	1,901,293	1,332,031	-	236,722	(332,540)
Public safety	10,732,615	1,176,261	11,119	-	(9,545,235)
Public services	994,641	-	-	-	(994,641)
Public facilities	832,497	138,819	313,990	-	(379,688)
Judicial	2,564,139	1,121,827	39,352	-	(1,402,960)
Legal	1,507,743	20,480	41,991	-	(1,445,272)
Culture and recreation	1,520,001	164,997	19,529	5,500	(1,329,975)
Health and welfare	1,013,718	74,049	38,183	-	(901,486)
Conservation	133,711	-	-	-	(133,711)
Interest on long-term debt	2,655,252	-	-	-	(2,655,252)
Total governmental activities	28,614,816	5,502,718	580,869	280,025	(22,251,204)
Total primary government	$ 28,614,816	$ 5,502,718	$ 580,869	$ 280,025	(22,251,204)
General revenues:					
Taxes:					
Property					26,080,238
Beverage					221,537
Other					246,190
Investment earnings					257,275
Miscellaneous					56,982
Total general revenues					26,862,222
Change in net assets					4,611,018
Net assets - beginning					45,103,494
Prior period adjustment					258,455
Net assets - ending					$ 49,972,967

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

ROCKWALL COUNTY, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

AS OF SEPTEMBER 30, 2010

	General	Courthouse Construction	Road Improvements Bond 2008	Debt Service	Other Governmental Funds	Total
ASSETS						
Cash and investments						
Unrestricted	$ 21,315,820	$ 21,743,473	$ 6,526,176	$ -	$ 613,195	$ 50,198,664
Restricted	577,104	4,007,152	-	512,288	6,892,850	11,989,394
Receivables (net of allowances for uncollectibles)						
Taxes	613,161	-	-	142,148	45,232	800,541
Accounts	489,494	-	-	-	355,399	844,893
Interest	10,227	-	-	-	1,519	11,746
Due from other funds	9,707	-	-	932	-	10,639
Prepaid expenditures	73,779	-	-	-	-	73,779
Total assets	$ 23,089,292	$ 25,750,625	$ 6,526,176	$ 655,368	$ 7,908,195	$ 63,929,656
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 965,516	$ 1,992,373	$ 471,074	$ 501	$ 41,825	$ 3,471,289
Accrued liabilities	401,616	-	-	-	33,482	435,098
Accrued interest payable	-	-	9,930	36,664	-	46,594
Due to others	15,731	-	-	-	-	15,731
Deferred revenue	838,317	-	-	123,348	241,315	1,202,980
Due to other funds	932	-	-	-	9,707	10,639
Total liabilities	2,222,112	1,992,373	481,004	160,513	326,329	5,182,331
Fund balances:						
Reserved for:						
Debt service	-	-	-	494,855	-	494,855
Unreserved reported in:						
General fund	20,867,180	-	-	-	-	20,867,180
Special revenue funds	-	-	-	-	6,681,159	6,681,159
Capital projects funds	-	23,758,252	6,045,172	-	900,707	30,704,131
Total fund balances	20,867,180	23,758,252	6,045,172	494,855	7,581,866	58,747,325
Total liabilities and fund balances	$ 23,089,292	$ 25,750,625	$ 6,526,176	$ 655,368	$ 7,908,195	$ 63,929,656

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

ROCKWALL COUNTY, TEXAS

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

AS OF SEPTEMBER 30, 2010

Total fund balances - governmental funds balance sheet	$	58,747,325
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		43,988,822
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		1,202,980
Long-term liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, NPO, and bonds payable), are not due and payable in the current period and are therefore not reported in the funds.	(	59,864,064)
Governmental funds report outlays for pension costs as expenditures. However, in the statement of activities the amount by which these outlays exceed the annual required contributions for the plan are not expenses. Instead these outlays are reported as an asset on the statement of net assets.		4,319,223
Internal Service Funds are used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.		1,578,681
Net assets of governmental activities in the Statement of Net Assets	$	49,972,967

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	General	Courthouse Construction	Road Improvements Bond 2008	Debt Service	Other Governmental Funds	Total Governmental
REVENUES						
Property taxes	$ 20,261,344	$ -	$ -	$ 5,361,804	$ 469,761	$ 26,092,909
Beverage taxes	221,537	-	-	-	-	221,537
Fines and forfeitures	1,093,613	-	-	-	244,585	1,338,198
Other taxes	14,853	-	-	-	231,337	246,190
Fees and commissions	2,188,121	-	-	-	1,816,043	4,004,164
Intergovernmental	22,440	-	-	-	103,671	126,111
Election	-	-	-	-	111,632	111,632
Investment earnings	139,706	71,576	13,063	4,525	28,405	257,275
Grants	384,200	-	-	-	73,675	457,875
Donations	-	-	-	-	5,500	5,500
Miscellaneous	37,033	52,317	-	-	50,861	140,211
Total revenues	24,362,847	123,893	13,063	5,366,329	3,135,470	33,001,602
EXPENDITURES						
Current:						
General government	3,537,993	-	-	-	75,855	3,613,848
Financial administration	1,694,096	-	-	-	-	1,694,096
Commissioner expenses	370,898	-	-	-	-	370,898
Roads and bridges	-	-	-	-	1,567,666	1,567,666
Public safety	9,489,732	-	-	-	658,887	10,148,619
Public facilities	975,657	-	-	-	-	975,657
Public services	668,794	-	-	-	118,359	787,153
Judicial	2,480,031	-	-	-	20,250	2,500,281
Legal	1,425,043	-	-	-	43,346	1,468,389
Culture and recreation	1,320,627	-	-	-	152,429	1,473,056
Health and welfare	998,039	-	-	-	-	998,039
Conservation	129,166	-	-	-	-	129,166
Capital outlay	906,296	6,109,045	959,005	-	17,163	7,991,509
Debt service:						
Principal	-	-	-	3,297,500	-	3,297,500
Interest and fiscal charges	-	-	-	2,597,642	-	2,597,642
Bond issuance cost and fees	-	-	57,586	194,949	-	252,535
Total expenditures	23,996,372	6,109,045	1,016,591	6,090,091	2,653,955	39,866,054
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	366,475	(5,985,152)	(1,003,528)	(723,762)	481,515	(6,864,452)
OTHER FINANCING SOURCES (USES)						
Issuance of long-term debt	-	-	2,460,000	8,815,000	-	11,275,000
Transfers in	-	-	-	-	590,664	590,664
Transfers out	(590,664)	-	-	-	-	(590,664)
Premium on issuance of bonds		-	10,632	382,055		392,687
Discount on issuance of bonds		-	(16,393)	(22,698)		(39,091)
Payment to bond refunding escrow agent		-	-	(8,990,432)		(8,990,432)
Sale of capital assets	96,580	-	-	-	23,623	120,203
Total other financing sources and uses	(494,084)	-	2,454,239	183,925	614,287	2,758,367
NET CHANGE IN FUND BALANCES	(127,609)	(5,985,152)	1,450,711	(539,837)	1,095,802	(4,106,085)
FUND BALANCES, BEGINNING	20,994,789	29,743,404	4,594,461	1,034,692	6,486,064	62,853,410
FUND BALANCES, ENDING	$ 20,867,180	$ 23,758,252	$ 6,045,172	$ 494,855	$ 7,581,866	$ 58,747,325

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

ROCKWALL COUNTY, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2010

Net change in fund balances - total governmental funds	$(4,106,085)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	6,723,586
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	224,757
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.	526,281
Governmental funds report outlays for pension costs as expenditures. However, in the statement of activities the amount by which these outlays exceed the annual required contributions for the plan are not expenses. Instead these outlays are reported as an asset on the statement of net assets.	1,283,767
Internal service funds are used by management to charge the costs of health insurance to individual funds.	(41,288)
Change in net assets of governmental activities	$ 4,611,018

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2010

	Governmental Activities
	Internal Service
ASSETS	
Current assets:	
Receivables (net of allowances for uncollectibles)	$ 223,599
Interest receivable	2,410
Restricted assets:	
Cash and cash equivalents	1,581,395
Total assets	1,807,404
LIABILITIES	
Current liabilities:	
Accounts payable	51,558
Claims payable	152,206
Accrued liabilities	24,959
Total liabilities	228,723
NET ASSETS	
Restricted	1,578,681
Total net assets	$ 1,578,681

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Governmental Activities Internal Service
OPERATING REVENUES	
Charges for services	$ 2,838,900
Total operating revenues	2,838,900
OPERATING EXPENSES	
Insurance claims	2,171,040
Stop-loss insurance premiums	452,999
Administrative and other	272,697
Total operating expenses	2,896,736
OPERATING LOSS	(57,836)
NONOPERATING REVENUES (EXPENSES)	
Investment income	16,548
Total nonoperating revenues (expenses)	16,548
NET LOSS	(41,288)
NET ASSETS, BEGINNING	1,619,969
NET ASSETS, ENDING	$ 1,578,681

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Governmental Activities Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from users	$ 2,841,860
Cash paid to employees	(247,738)
Cash paid to suppliers	(2,603,626)
Net cash used by operating activities	(9,504)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	15,226
Net cash provided by investing activities	15,226
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,722
CASH AND CASH EQUIVALENTS, BEGINNING	1,575,673
CASH AND CASH EQUIVALENTS, ENDING	$ 1,581,395
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES	
Operating loss	$(57,836)
Change in assets and liabilities:	
Decrease (increase) in receivables	2,960
Increase (decrease) in accounts payable	51,558
Increase (decrease) in claims payable	(31,145)
Increase (decrease) in accrued liabilities	24,959
Total adjustments	48,332
Net cash used by operating activities	$(9,504)

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

SEPTEMBER 30, 2010

	Indigent Health Care Private-Purpose Trust	Agency Funds
ASSETS		
Cash and investments	$ 84,737	$ 3,770,060
Receivables	105	-
Total assets	84,842	3,770,060
LIABILITIES		
Accounts payable	2,559	-
Accrued expenses	4,201	-
Due to others	-	2,374,637
Due to other governments	-	1,395,423
Total liabilities	6,760	3,770,060
NET ASSETS		
Held in trust	78,082	-
Total net assets	$ 78,082	$ -

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

ROCKWALL COUNTY, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED SEPTEMBER 30, 2010

	Indigent Health Care Private-Purpose Trust
ADDITIONS	
County contributions	$ 150,000
Interest earnings	277
Total additions	150,277
DEDUCTIONS	
Administrative expenses	232,308
Total deductions	232,308
CHANGES IN NET ASSETS	(82,031)
NET ASSETS, BEGINNING	160,113
NET ASSETS, ENDING	$ 78,082

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Rockwall County (the "County") reflected in the accompanying financial statements conform to Generally Accepted Accounting Principles (GAAP). The County's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The most significant accounting and reporting policies of the County are described in the notes to the financial statements.

A. Reporting Entity

Rockwall County (the "County") was founded in 1873 and operates under the laws of the State of Texas and subsequent court orders providing the following services: public safety (law enforcement and detention facilities, contracts for fire and ambulance service), public welfare (social services, public health), highways and streets, judicial administration and records, library, public improvements, and general administrative services.

The accompanying financial statements present the County and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the County's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the County. We have adopted the provisions of Statement No. 39 of the Governmental Accounting Standards Board, *Determining Whether Certain Organizations are Component Units,* an amendment of Statement No. 14 of the Governmental Accounting Standards Board, *The Financial Reporting Entity,* as of September 30, 2010. There are no organizations that meet the requirements of GASB 39 which require inclusion in the basic financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the County. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. The County has no business-type activities.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Government-wide and Fund Financial Statements (Continued)

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

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

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. The primary revenue sources susceptible to accrual are property taxes, which are recognized as deferred revenue until cash is received, and grant income, which is accrued when the legal and contractual requirements of the individual programs are met. Expenditures are recorded when incurred. However, expenditures for principal and interest on general long-term debt, compensated absences, and claims and judgments are recorded when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The County reports the following major governmental funds:

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

The ***Courthouse Construction Fund*** accounts for the design, construction and equipping of the new Rockwall County Courthouse. Tax notes were issued to finance this project.

The ***Road Improvements Bond 2008 Fund*** accounts for the planning, engineering and construction of roads within Rockwall County. Bonds will be issued to finance this project.

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

Additionally, the County reports the following fund types:

Internal Service Funds account for the County's self-insurance program and employees benefit fund.

The ***Private-purpose Trust Fund*** is used to account for resources legally held in trust by a not-for-profit organization devoted to providing indigent health care. All resources of the fund may be used for the organization's activities.

Agency Funds are used to report resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

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

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

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

D. Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows for the proprietary fund types, the County considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at fair value, and the changes in the fair value of investments are recognized as investment revenue.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." The effect of interfund activity has been eliminated from the government-wide financial statements. All trade and property tax receivables are shown net of an allowance for uncollectibles.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the governmental activities column in the government-wide financial statements. All capital assets are valued at their historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are recorded at estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. Improvements which extend asset lives are capitalized and depreciated over the useful lives of the related assets, as applicable. Capital assets are capitalized if they have an original cost of $5,000 or more and an expected useful life of over one year. When property or equipment is retired from service or otherwise disposed of, the cost and related accumulated depreciation are removed and any resulting gain or loss is reported in the statement of activities.

Infrastructure capital assets, such as streets, built and/or acquired since fiscal year 1960 are included.

(continued)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Capital Assets (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range as follows:

Assets	Years
Infrastructure	10 - 40
Buildings	10 - 40
Improvements	5 - 40
Equipment	5 - 10

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

Bond Issuance Costs

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized during the current period in the fund financial statements. Bond proceeds are reported as an "other financing source." Bond issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. In the government-wide financial statements, issuance cost are reported as deferred charges and amortized over the life of the related debt. Bonds payable are reported net of the applicable bond premium or discount.

Compensated Absences

A liability for unused paid time off and compensatory time for all fulltime employees is calculated and reported in the government-wide financial statements. For financial reporting, the following criteria must be met to be considered as compensated absences: a) leave or compensation is attributable to services already rendered, and b) leave or compensation is not contingent on a specific event (such as illness).

(continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Compensated Absences (Continued)

County employees earn annual leave up to a maximum of 20 days per year based on months of service. Fulltime regular employees earn 10 days of sick leave per year. There is no liability for unpaid accumulated sick leave since the County does not have a policy to pay any amounts when employees separate from service with the County. Employees who have been employed for a year or more are eligible to be paid for all unused annual leave at their regular rate of pay upon termination of employment. Vacation pay is accrued when incurred in the government-wide and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation and retirements.

Reserves of Fund Equity

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

Use of Estimates

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

Property Taxes

Property subject to taxation is real property and certain personal property situated in the County. Certain properties of religious, educational and charitable organizations are exempt from taxation. In addition, other special exemptions are allowed by the Commissioners' Court of the County.

The County's ad valorem taxes are levied and become a legal enforceable claim, on October 1 on 100% of assessed valuation at a rate of \$.3750 (\$.2969 for the maintenance and operations and \$.0781 for interest and sinking fund) per \$100 valuation as of the preceding January 1. These taxes are due and payable from October 1 of the year in which levied until January 31 of the following year without interest or penalty. Taxes paid after February 1 of each year are subject to interest and penalty charges.

(continued)

D. Assets, Liabilities and Net Assets or Equity (Continued)

Property Taxes (Continued)

The County's taxes on real property are a lien (as of the date of levy) against such property until paid. The County may foreclose on real property upon which it has a lien for unpaid taxes. Delinquent taxes on property not otherwise collected are generally paid when there is a sale or transfer of the title to the property.

Any liens and subsequent suits against the taxpayer for payment of delinquent personal property taxes are barred unless instituted within four years from the time such taxes became delinquent. Unlike real property, the sale or transfer of most personal property does not require any evidence that taxes thereon are paid.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the County or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The County Judge serves as the budget officer for the Commissioners' Court and submits the annual budget for approval where the legal level of control is by category. Amendments to the budget and additional appropriations must be approved by Commissioners' Court. Following is a summary of the budget calendar:

- The proposed budget is filed with the County Clerk and made available for public inspection.

- The Commissioners' Court holds a public hearing on the proposed budget and subsequently makes changes and approves the budget including the adoption of a property tax levy which is effective on October 1 preceding the beginning of the fiscal year.

(continued)

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

- The approved budget is filed with the County Clerk.
- During the course of the budget year, it may be necessary to amend the budget. The Commissioners' Court may, by order, authorize an emergency expenditure as an amendment to the original budget only in a case of grave public necessity to meet an unusual and unforeseen condition that could not have been included in the original budget through the use of reasonable diligent thought and attention. The Commissioners' Court may issue an order to amend the budget by transferring an amount budgeted for one line item to another budgeted line item without authorizing an emergency expenditure.

III. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Some liabilities, (such as notes payable, capital lease contract payable, long-term compensated absences, and bond payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets." The details of this $(59,864,064) difference are as follows:

Tax notes	$(59,075,000)
Premium on bonds	(242,112)
Accrued interest payable	(522,629)
Compensated absences	(581,298)
Deferred charge for bond issuance costs	902,392
Net OPEB obligation	(345,417)
Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net assets - governmental activities*	$(59,864,064)

(continued)

III. 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

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains, "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 $6,723,586 difference are as follows:

Capital outlay	$	7,991,509
Capital asset retirements	(	132,899)
Depreciation expense	(	1,135,024)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	6,723,586

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds." The details of this $224,757 difference are as follows:

Property taxes	$	224,232
Adjudicated fines		525
Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	224,757

(continued)

III. 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)

Another element of that reconciliation states, "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." The details of this $526,281 difference are as follows:

Principal repayments	$	3,297,500
Interest payable	(	1,388)
Limited tax notes proceeds	(	11,275,000)
Bond discount/premium	(	358,190)
Bond refunding		8,962,500
Deferred charges		184,359
Compensated absences	(	122,256)
OPEB obligation	(	161,244)
Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net assets of governmental activities*	$	526,281

IV. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

State statutes authorize the County to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (a) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (b) secured by obligations that are described by (1) – (4); (6) fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by (1), pledged with a third party selected or approved the County, and placed through a primary government securities dealer.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Following are the County's investments at September 30, 2010:

	Fair Value	Weighted Average Maturity (Days)
TexPool	$ 3,859,302	30
MBIA Class	11,707,401	41
TexStar	972,040	47
LOGIC	28,601,773	40
Fannie Mae	1,000,000	872
Federal Home Loan Bank	12,215,000	698
Total investments	$ 58,355,516	

Investment pools are not categorized as to investment risk since specific securities relating to the government cannot be identified. Investments in 2a7-like pools are valued based upon the value of pool shares. No investments are reported at amortized cost. The County currently invests in three 2a7-like pools, the Texas Local Government Investment Pool (TexPool), Texas Short Term Asset Reserve Program (TexStar), and the Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS).

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company authorized to operate TexPool.

MBIA CLASS was created under the Texas Government Code Ch. 2256. Municipal Investors Service Corporation (MBIA) is the plan administrator. The Custodian and the Board of Trustees shall conduct the trust's activities. The Board of Trustees shall be made up of all the Trustees elected by the participants. The fair value of the County's position in these pools is the same as the value of the pool shares.

J. P. Morgan Fleming Asset Management (USA), Inc. ("JPMFAM") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexStar under an agreement with the TexStar board of directors. JPMFAM provides investment service and FSAM provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by J.P. Morgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services Co. TexStar bylaws provide for a five-member board of directors consisting of three representatives of participants and one member designated by each of the co-administrators.

Interest Rate Risk. As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that the maximum allowable stated maturity of any individual investment held in the General Fund shall not exceed 60 months nor shall the invested amount in such securities exceed 15% of the General Fund operating reserve. The maximum allowable stated maturity of any individual investment held in all other funds shall not exceed 24 months.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and Investments (Continued)

Custodial Credit Risk. In the case of deposits, this is the risk that in the event of a bank failure, the County's deposits may not be returned to it. 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 deposits. As of September 30, 2010, the County's deposit balance was fully collateralized with securities held by the pledging financial institution in the County's name or by FDIC insurance.

Credit Risk. State law and county policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The County's investments as of September 30, 2010, were rated as follows:

Investment Type	Rating	Rating Agency
TexPool	AAAm	Standard & Poor's
MBIA Class	AAAm	Standard & Poor's
TexStar	AAAm	Standard & Poor's
LOGIC	AAAm	Standard & Poor's

B. Receivables and Deferred Revenues

Receivables as of year-end for the County's individual major funds and nonmajor funds including the applicable allowances for uncollectible accounts, as follows:

	Governmental Funds			
	General	Debt Service	Nonmajor Funds	Total
Receivables:				
Taxes	$ 789,513	$ 159,734	$ 46,730	$ 995,977
Adjudicated fines	2,039,951	-	-	2,039,951
Accounts	197,240	-	355,399	552,639
Interest	10,227	-	1,519	11,746
Gross receivables	3,036,931	159,734	403,648	3,600,313
Less: allowance for uncollectibles	1,924,049	17,586	1,498	1,943,133
Net total receivables	$ 1,112,882	$ 142,148	$ 402,150	$ 1,657,180

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

B. Receivables and Deferred Revenues (Continued)

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

	Unavailable	Unearned
General fund:		
Delinquent property taxes receivable	$ 540,882	$ -
Adjudicated fines receivable	292,254	-
Other	5,181	-
Total general fund	838,317	-
Debt service:		
Delinquent property taxes receivable	123,348	-
Total debt service	123,348	-
Other governmental funds:		
Delinquent property taxes receivable	4,593	-
Lien assessments	236,722	-
Total other governmental funds	241,315	-
Total governmental funds	$ 1,202,980	$ -

C. Capital Assets

Capital assets are recorded at cost or, if donated, at fair value at the date of receipt. In accordance with GASB 34, depreciation policies were adopted to include useful lives and classification by function. Infrastructure assets are valued in two ways: either actual historical cost where the amount can be determined from existing records or using current cost deflated to the year of construction. Once the historical cost is determined, regardless of how it is determined, the asset is then depreciated over its useful life.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital Assets (Continued)

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Increases	Decreases	Prior Period Adjustment	Ending Balance
Governmental activities:					
Capital assets, not being depreciated:					
Land	$ 6,371,813	$ -	$ -	$ -	$ 6,371,813
Construction in progress	17,236,296	7,316,999	-	-	24,553,295
Total assets not being depreciated	23,608,109	7,316,999	-	-	30,925,108
Capital assets, being depreciated:					
Buildings and improvements	11,976,438	183,305	-	-	12,159,743
Infrastructure	5,289,180	-	-	(56,524)	5,232,656
Machinery and equipment	6,842,732	491,205	(441,006)	-	6,892,931
Total capital assets being depreciated	24,108,350	674,510	(441,006)	(56,524)	24,285,330
Less accumulated depreciation:					
Buildings and improvements	(4,107,064)	(344,046)	-	-	(4,451,110)
Infrastructure	(1,376,700)	(130,831)	-	(685,021)	(2,192,552)
Machinery and equipment	(4,225,914)	(660,147)	308,107	-	(4,577,954)
Total accumulated depreciation	(9,709,678)	(1,135,024)	308,107	(685,021)	(11,221,616)
Total capital assets being depreciated, net	14,398,672	(460,514)	(132,899)	(741,545)	13,063,714
Governmental activities capital assets, net	$ 38,006,781	$ 6,856,485	$(132,899)	$(741,545)	$ 43,988,822

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

Governmental activities:	
General government	$ 395,056
Financial administration	18,317
Roads and bridges	313,207
Public safety	313,926
Public facilities	5,365
Public services	38,545
Judicial	23,526
Legal	3,043
Culture and recreation	19,706
Health and welfare	4,333
Total depreciation expense - governmental activities	$ 1,135,024

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund Receivables/Payables and Transfers

The composition of interfund balances as of September 30, 2010, is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental	$ 9,707
Debt service	General	932
		$ 10,639

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made; and unsettled overdrafts of pooled cash which will be removed by rebalancing the funds' share of pooled cash and investments.

The following schedule briefly summarizes the County's transfer activity:

Transfers in	Transfers out	Amount
Nonmajor governmental	General	$ 590,664
		$ 590,664

Transfers are used to: 1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; and 2) move unrestricted revenues collected in Special Revenue Funds to the General Fund.

E. Long-term Liabilities

The County issues general obligation bonds and tax notes to finance major capital projects. General obligations debt, certificates of obligation and contractual obligations are generally payable from property tax revenues. All other obligations, including capital leases and compensated absences, are payable from revenues of the General Fund.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes

	Date of Issue	Interest Rate	Principal Balance	Due Within One Year
$950,000 limited tax notes Series 2004	11/04/04	3.51%	$ 175,000	$ 175,000
$550,000 limited tax notes Series 2005	11/30/05	3.85%	205,000	100,000
$11,500,000 limited tax notes Series 2007	06/18/07	4.0% - 4.037%	10,510,000	420,000
$1,250,000 limited tax notes Series 2007	09/18/07	3.75% - 4.03%	750,000	175,000
$2,000,000 limited tax notes Series 2008A	09/25/08	4.09%	1,475,000	270,000
$24,705,000 tax refunding note Series 2009	02/01/09	2.00%-5.00%	24,250,000	640,000
$10,620,000 limited tax note Series 2009	02/01/09	2.75%-5.25%	10,435,000	270,000
$2,460,000 unlimited tax Series 2010	06/08/10	4.15%	2,460,000	50,000
$8,815,000 limited tax refunding Series 2010	06/08/10	3.65%	8,815,000	475,000
			$ 59,075,000	$ 2,575,000

The $950,000 Limited Tax Notes, Series 2004, were issued for the purpose of purchasing five public safety vehicles, a vehicle for the County Health Department, equipment for Road and Bridge, expansion of the County jail, and other capital equipment purchases for general County purposes. Principal maturities will occur annually beginning February 2006. Interest payments occur semi-annually in February and August at 3.51%. The final principal and interest payment is due February 2011.

The $550,000 Limited Tax Notes, Series 2005, were issued for the purpose of (a) acquisition of (1) book binding machine, computer equipment and software, courtroom equipment and software, information systems, storage equipment and facilities and furniture and furnishing several offices, (2) GPS navigation system for 911 Coordinator, (3) vehicles and cleaning equipment for maintenance and operations, (4) vehicles for Sheriff's Department and Jail, and (5) trucks for road and bridge; (b) construction improvements to County Clerk's office courtrooms, and indigent health care offices and to pay the costs of issuance fees of the Notes. Principal maturities will occur annually beginning in February 2007. Interest payments will occur semi-annually in February and August at 3.85%. The final principal and interest payment is due February 2012.

(continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The $11,500,000 Permanent Improvement Limited Tax Notes, Series 2007, were issued for the purpose of designing constructing and equipping of a new 52,000 square foot library. Principal maturities will occur annually beginning in February 2008. Interest payments will occur semi-annually in February and August with a range of 4.0% - 4.375%. The final principal and interest payment is due February 2027.

The $1,250,000 Limited Tax Notes, Series 2007, were issued for the purpose of purchasing computer equipment and software, audio/video equipment, security equipment, information systems, courtroom equipment, technology upgrades, office equipment, furniture and furnishing for County offices, voter election management system, voting registration card imaging, vehicles for Public Safety Departments, vehicles and equipment for road and bridge, construction of holding cells for County Court at Law and District Court, and acquisition of land and improvements for expansion for the jail and other county facilities. Principal maturities will occur annually beginning in February 2008. Interest payments will occur semi-annually in February and August with a range of 3.75% - 4.03%. The final principal and interest payment is due February 2014.

The $2,000,000 Limited Tax Notes, Series 2008A, were issued for the purpose of paying contractual obligations to be incurred in connection with acquiring, remodeling, improving, and equipping the Rockwall County Services Building located at 915 Whitmore Drive in Rockwall, Texas including the payment of the costs of issuance of the notes. The notes shall mature annually on February 1 beginning in the year 2009 and ending in the year 2015. Interest payments will occur semi-annually on February 1 and August 1 beginning in the year 2009 and ending February 1, 2015, at an annual rate of 4.09%.

The $24,705,000 Limited Tax Refunding Bonds – Series 2009, were issued to liquidate all but $5,000,000 of the $30,000,000 Tax Notes Series 2008 for the purpose of extending the amortization period to 25 years instead of the shorter seven-year period associated with the $30M Tax Notes 2008 bonds. This action had the effect of reducing the annual debt service associated with the liability and did not affect the original purpose of the funds, which is to pay for the construction of a new courthouse for the County.

$10,620,000 Unlimited Tax Road Bonds – Series 2009, were issued for the purpose of funding road improvement projects authorized by the voters in the 2004 $17.250M Road Bond Authorization and the 2008 $100M Road Bond Authorization. The proceeds were split with $8.120M allocated to projects authorized by the 2004 bond issue and $2.500M was allocated to projects authorized by the 2008 bond issue.

(continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The $2,460,000 Unlimited Tax Series 2010, were issued for the purpose of providing funds for (i) permanent public improvements, to-wit: construction, maintenance and operation of macadamized, graveled or paved roads and highways, or in the aid thereof, throughout the County, including participating in the cost of joint projects with various state, city and regional council of government entities, and (ii) paying certain costs of issuing bonds. Principal maturities will occur annually beginning in February 2011. Interest payments will occur semi-annually in February and August at 4.146%. The final principal and interest payment is due February 2034.

The $8,815,000 Limited Tax Refunding Series 2010, were issued for the purpose of (i) refunding the refunded obligations and (ii) paying the costs of issuing the bonds. Principal maturities will occur annually beginning in February 2011. Interest payments will occur semi-annually in February and August at 3.653%. The final principal and interest payment is due February 2034.

Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of September 30, 2010, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows:

Permanent Improvement Bonds, Series 2001	$ 2,620,000
Total	$ 2,620,000

The County issued $8,815,000 of limited tax refunding bonds to provide resources to purchase U. S. Government State and Local Government Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $10,631,046 for certificates of obligation, permanent improvement bond, and tax notes. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The County contributed excess Interest and Sinking Fund balance as a cash contribution to reduce the bond issue size. Consequently, the reacquisition price did not exceed the net carrying amount of the old debt. This advance refunding was undertaken to decrease total debt service payments over the next 11 years by approximately $498,781 and resulted in an economic gain of $350,827.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

E. Long-term Liabilities (Continued)

Tax Notes (Continued)

The requirements to amortize all tax notes outstanding, as of September 30, 2010, are summarized as follows:

Fiscal Year Ending September 30,	Tax Notes Principal	Tax Notes Interest	Tax Notes Total
2011	$ 2,575,000	$ 2,560,143	$ 5,135,143
2012	2,590,000	2,373,050	4,963,050
2013	2,555,000	2,286,602	4,841,602
2014	2,660,000	2,191,115	4,851,115
2015	2,555,000	2,091,694	4,646,694
2016-2020	11,840,000	9,070,319	20,910,319
2021-2025	12,120,000	6,644,438	18,764,438
2026-2030	11,945,000	3,895,494	15,840,494
2031-2034	10,235,000	1,051,999	11,286,999
Total	$ 59,075,000	$ 32,164,854	$ 91,239,854

F. Changes in Long-term Debt

The following is a summary of long-term debt transactions of the County for the fiscal year ended September 30, 2010:

Description	Amounts Outstanding September 30, 2009	Issued	Retired	Refunded	Amounts Outstanding September 30, 2010	Due Within One Year
Certificates of obligation	$ 2,575,000	$ -	$ 240,000	$ 2,335,000	$ -	$ -
Tax notes	57,485,000	11,275,000	3,057,500	6,627,500	59,075,000	2,575,000
Bond premiums/discounts	(116,078)	353,596	(4,594)	-	242,112	10,780
Compensated absences	459,042	414,325	292,069	-	581,298	116,260
Net OPEB obligation	184,173	230,209	68,965	-	345,417	-
	$ 60,587,137	$ 12,273,130	$ 3,653,940	$ 8,962,500	$ 60,243,827	$ 2,702,040

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Pension Plans

Defined Benefit Plan – Texas County and District Retirement System (TCDRS)

Plan Description

Rockwall County provides retirement, disability, and death benefits for all of its regular fulltime and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer retirement system consisting of 602 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P. O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the Commissioners' Court of the County, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service, but must leave their accumulated contributions in the plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by their employer.

Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and county-financed monetary credits. The level of these credits is adopted by the Commissioners' Court of the County within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the County's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the county-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy

The employer has elected the annually determined contribution rate (Variable Rate) plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the required contribution rate of the employer is actuarially determined annually. The employer may contribute at an elected contribution rate that is higher. For the months of October, November, and December in 2009, the employer contributed at an elected rate of 9% versus the required rate of 6.36%. For 2010, the employer contributed the 9% required rate.

(continued)

G. Pension Plans (Continued)

Defined Benefit Plan – Texas County and District Retirement System (TCDRS) (Continued)

Plan Description (Continued)

The deposit rate payable by the employee members for calendar year 2010 is the rate of 7% as adopted by the Commissioners' Court of the County. The employee deposit rate and the employer deposit rate may be changed by the Commissioners' Court of the County within the options available in the TCDRS Act.

Annual Pension Cost

For the employer's accounting year ended September 30, 2010, the annual required contribution for the TCDRS plan was $1,065,073, and the actual contributions were $2,660,569. The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2008 and December 31, 2007, the basis for determining the contribution rates for calendar years 2010 and 2009. The December 31, 2009, actuarial valuation is the most recent valuation.

Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/07	12/31/08	12/31/09
Actuarial cost method	entry age	entry age	entry age
Amortization method	Level percentage of payroll, open	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization period	15	4.8	30
Asset valuation method	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value	SAF: 10-yr smoothed value ESF: Fund Value
Actuarial Assumptions:			
Investment return[1]	8.00%	8.00%	8.00%
Projected salary increases[1]	5.3%	5.3%	5.4%
Inflation	3.5%	3.5%	3.5%
Cost-of-living adjustments	0.0%	0.0%	0.0%

[1] Includes inflation at the state rate

Trend Information for the Retirement Plan for the Employees of Rockwall County

Fiscal year	2008	2009	2010
Annual required contribution (ARC)	$ 1,038,716	$ 1,141,902	$ 1,065,073
Interest on net pension obligation	-	(160,000)	(162,836)
Adjustment to ARC	-	124,544	474,565
Annual pension cost	1,038,716	1,106,446	1,376,802
Contributions made	(3,038,716)	(1,141,902)	(3,660,569)
Net pension obligation (asset), beginning of year	-	(2,000,000)	(2,035,456)
Change in net pension obligation (asset)	(2,000,000)	(35,456)	(2,283,767)
Net pension obligation (asset), end of year	$(2,000,000)	$(2,035,456)	$(4,319,223)
Percentage of APC contributed	292.5%	103.2%	265.9%

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

G. Pension Plans (Continued)

Defined Benefit Plan – Texas County and District Retirement System (TCDRS) (Continued)

Annual Pension Cost (Continued)

Schedule of Funding Progress for the Retirement Plan
For the Employees of Rockwall County

Year	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (1) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2007	$ 19,635,206	$ 19,403,683	$(231,523)	101.19%	$ 10,467,796	(2.21%)
2008	20,062,445	21,573,217	1,510,772	93.00%	11,896,462	12.70%
2009	25,243,417	25,254,555	11,138	99.96%	13,275,117	0.08%

1) The annual covered payroll is based on the employee contributions received by TCDRS for the year ended with the valuation date.

2) Revised economic and demographic assumptions due to an experience review were reflected in this valuation.

H. Other Post-retirement Health Care Benefits

The County provides certain health care and life insurance benefits, under county policy, for all active employees upon retirement that meet one of the following requirements: age 60 with 8 or more years of service, at least 30 years of service at any age, or a combined age plus service of at least 75.

A retiree may choose to receive health care coverage through the County's self-insured plan if retiring prior to age 65 or the retiree may choose to obtain coverage through the CountyChoice Silver plan offered by Texas Association of Counties if retiring at age 65 or older. As noted, it is the retiree's option to choose either based upon age and other qualifying requirements when retirement occurs. The retiree is free to choose an independent plan for coverage. To offset the cost of health care coverage, the County provides a $200 monthly stipend to qualified retirees. Spouses are not eligible for the stipend unless they are also qualified County retirees. The stipend applies to both pre-65 and post-65 retirees. The stipend benefit is subject to approval by the Commissioners' Court on an annual basis. The stipend benefit has been offered to qualified retirees since 2002, although amounts have changed over time.

Expenses for post-retirement health care benefits are recognized on a pay-as-you-go basis. During the year, post-retirement health care benefits paid by the County were $68,965. The County does not produce separately issued financial statements for the benefit plan.

(continued)

I. Post-retirement Health Care Benefits

Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution (ARC)	$ 221,000
Interest on Net OPEB Obligation	9,209
Adjustment to the ARC	-
Annual OPEB Cost	230,209
Employer Contributions with Interest	(68,965)
Increase (Decrease) in Net OPEB Obligation	161,244
Net OPEB Obligation, beginning of year	184,173
Net OPEB Obligation, end of year	$ 345,417

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current year (5% discount rate, and level percent of pay amortization).

Fiscal Year Ended	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net OPEB Obligation
09/30/09	$ 221,000	$ 36,827	17%	$ 184,173
09/30/10	221,000	68,965	31%	345,417

Funding Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
09/30/08	$ -	$ 1,593,000	$ 1,593,000	- %	$ 13,275,117	12.00%

This is the second year of implementation for GASB Statement No. 45 for the County. Only one actuarial evaluation has been required in this time period. Therefore, only one year is available for presentation on the Schedule of Funding Status and Funding Progress.

(continued)

IV. DETAILED NOTES ON ALL FUNDS (Continued)

I. Post-retirement Health Care Benefits (Continued)

Annual OPEB Cost and Net OPEB Obligation (Continued)

The projection of future payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the County and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the County and plan members to that point. The 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, consistent with the long-term perspective of the calculations.

The actuarial methods and significant assumptions used are as follows:

Actuarial Valuation Date	09/30/2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of payroll
Remaining Amortization Period	30 years; open
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5%
Payroll Growth Rate	3%
Projected Salary Increases	4%
General Inflation Rate	3%
Healthcare cost trend rate	11%
The number of active members is assumed to remain constant in the future	

(continued)

IV. OTHER INFORMATION (Continued)

J. Prior Period Adjustments

In the government-wide financial statements an adjustment was made to correct a lump sum payment the County made to Texas County and District Retirement System (TCDRS) towards the County's unfunded actuarial accrued liability. The result of this payment should have created a net pension asset in the financial statements. As a result, this adjustment increased beginning net assets by $1,000,000.

Also in the government-wide statements an adjustment was made to correct an issue in the capital asset detail involving infrastructure. The result of this correction was an increase to the beginning balance of accumulated depreciation on infrastructure. As a result, this adjustment decreased beginning net assets by $741,545.

K. Health Care Coverage (Self-insured Plan)

During the year ended September 30, 2010, employees of the County were covered by a health insurance plan (the "Plan"). The County contributed $10,531 per year per employee. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid into the County's Insurance Trust Fund. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

L. Self-insurance Coverage

The County is exposed to various risks of loss in its normal daily operations. These risks include tort claims, theft/damage of county assets, errors and omissions, and natural disasters. The County has established a separate self-insurance fund (Internal Service) to account for these operations.

M. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions and natural disasters for which the County carries commercial insurance. The County participates in a risk management program through Texas Association of Counties for workers' compensation coverage. The County currently provides health benefits for its employees.

The County has not had any significant reductions in insurance coverage from coverage in the prior year. The amount of settlements has not exceeded insurance coverage in any of the previous three years.

N. Commitments and Contingencies

The County is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying combined financial statements and, accordingly, no provision for losses has been recorded.

(continued)

IV. OTHER INFORMATION (Continued)

N. Commitments and Contingencies (Continued)

The County participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the County has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2010, may be impaired. In the opinion of the County, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[CLOSING DATE]

$16,010,000

ROCKWALL COUNTY, TEXAS
UNLIMITED TAX ROAD BONDS,
SERIES 2012

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

> ROCKWALL COUNTY, TEXAS UNLIMITED TAX ROAD BONDS, SERIES 2012, dated January 1, 2012.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Commissioners Court of the Issuer authorizing their issuance (the “Order”).

WE HAVE represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the 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, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other certified showings relating to the authorization and issuance of the 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; and

(B) A continuing ad valorem tax upon all taxable property within Rockwall County, Texas, necessary to pay the interest on and principal of the Bonds, has been levied and pledged irrevocably for such purposes, without limit as to rate or amount, and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations.

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, as such, 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 underwriters of the Bonds with respect to matters solely within the knowledge of the Issuer, the Issuer’s financial advisor and the underwriters, respectively, which we have not independently verified, and have assumed continuing compliance with the covenants in the Order pertaining to those sections of the Code, that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations are determined to be inaccurate or incomplete or the Issuer fails to comply with the foregoing provisions of the Order, 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 ownership of, receipt of interest on, 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, 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 Order 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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