NEW ISSUE - BOOK-ENTRY-ONLY **Rating: S&P: “AA-”**
(See: “OTHER PERTINENT INFORMATION-Rating”)

OFFICIAL STATEMENT
June 4, 2018

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Certificates under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Certificates and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. (See "TAX MATTERS" herein.)

The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations” for financial institutions.

$6,595,000
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: June 1, 2018 **Due: February 1, as shown on inside cover**

The $6,595,000 City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Dayton, Texas (the “City” or the “Issuer”) on June 4, 2018, and the City’s Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City’s combined utility system (the *System*), not to exceed $1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from June 1, 2018 (the “Dated Date”) as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2019, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Certificates (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City Hall; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City’s Civic Center; (3) designing, acquiring, constructing, renovating, improving, and equipping City streets, curb, gutter, and sidewalk improvements, demolition, repair, and rebuilding of existing streets (including utilities repair, replacement, and relocation), and drainage incidental thereto; (4) designing, acquiring, constructing, renovating, improving, and equipping City parks and other recreational facilities; (5) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City’s utility system; (6) purchasing and equipping public safety vehicles and equipment, public works department vehicles and equipment, and utility system vehicles and equipment; (7) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (8) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as “APPENDIX C – Form of Legal Opinion of Bond Counsel” herein). It is expected that the Certificates will be available for initial delivery through DTC on or about June 27, 2018.

$6,595,000
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 240082[(1)]

Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [(1)]	Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [(1)]
2019	$ 325,000	2.000%	1.900%	GK7	2027	$ 460,000	4.000%	2.750%	GT8
2020	355,000	2.000%	2.050%	GL5	2028	480,000	4.000%	2.800%	GU5
2021	365,000	3.000%	2.150%	GM3	2029	220,000	4.000%	3.000% [(2)]	GV3
2022	380,000	3.000%	2.250%	GN1	2030	225,000	3.000%	3.100%	GW1
2023	390,000	4.000%	2.350%	GP6	2031	235,000	3.000%	3.200%	GX9
2024	410,000	4.000%	2.450%	GQ4	2032	240,000	3.250%	3.300%	GY7
2025	425,000	4.000%	2.550%	GR2	2033	255,000	3.250%	3.350%	GZ4
2026	440,000	4.000%	2.650%	GS0	2034	260,000	3.250%	3.400%	HA8

$550,000 3.375% Term Certificates due on February 1, 2036 and priced to Yield 3.500% CUSIP Suffix [(1)] HC4
$580,000 3.500% Term Certificates due on February 1, 2038 and priced to Yield 3.600% CUSIP Suffix [(1)] HE0

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. In addition, the Term Certificates (defined herein) are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

[(1)] CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.
[(2)] Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2028, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

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CITY OF DAYTON, TEXAS
117 Cook Street
Dayton, Texas 77535
(936) 258-2642 – Phone
(936) 258-2348 - Facsimile

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Jeff Lambright Mayor	7	2019	Liberty County Appraisal District Assistant Chief Appraiser
Dr. John S. Johnson Mayor Pro-Tem	5	2019	Retired
Wendall Hill Councilman	Newly elected	2020	Retired
Sherial L. Lawson Councilwoman	6	2018	Registered Nurse
Alvin Buress Councilman		2019	Fire Safety Consultant
Troy Barton Councilman	3	2018	Commercial Pump Tech

ADMINISTRATION

Name	Position	Length of Service (Years)
Theo Melancon	City Manager	1
Rudy Zepeda	Assistant City Manager	4
Shannon O'Keefe	City Secretary	1

CONSULTANTS AND ADVISORS

Bond Counsel..Norton Rose Fulbright US LLP
San Antonio, Texas

Certified Public Accountants..Belt Harris Pechacek LLP
Houston, Texas

Financial Advisor..SAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

Mr. Rudy Zepeda
Assistant City Manager
City of Dayton
117 Cook Street
Dayton, Texas 77535
Telephone: (936) 258-2642
rzepeda@cityofdaytontx.com

Mr. Mark M. McLiney
Mr. Andrew T. Friedman
SAMCO Capital Markets, Inc.
1020 Northeast Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
mmcliney@samcocapital.com
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

The Financial Advisor 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 its responsibilities to the Issuer 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.

THE CERTIFICATES 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 CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the City, the Financial Advisors or the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System as such information is provided by DTC respectively.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the Purchaser of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer	The City of Dayton, Texas (the "City" or "Issuer") is in southwest Liberty County, Texas approximately 39 miles northeast of the City of Houston. The City became an incorporated municipality in 1911 after originally being considered part of the original town of Liberty, founded in 1831. The City operates under the council-mayor form of government and as a home rule municipality. The City Manager, appointed by the City Council, is the chief administrative and executive officer of the City. (See "APPENDIX B - General Information Regarding the City of Dayton and Liberty County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on June 4, 2018 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed $1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. In addition, the Term Certificates (defined herein) are also subject to mandatory sinking fund redemption prior to stated maturity. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS", including the alternative tax on corporations. (See "TAX MATTERS" and, "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system, including the purchase and installation of smart water meters; (2) the purchase of materials, supplies, equipment, and machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Rating	S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA-" to the Certificates. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Payment Record	The City has never defaulted on the payment of its general obligation or revenue indebtedness.
Future Debt Issues	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2018, except potentially issuing refunding bonds for debt service savings.
Delivery	When issued, anticipated on or about June 27, 2018.
Legality	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT

relating to

$6,595,000
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Dayton, Texas (the "City" or the "Issuer") of its $6,595,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT***. Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

Impact of Hurricane Harvey… On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast near Rockport, Texas, before stalling over the Victoria, Texas region (the "Region"), about 162 miles southwest of the City. On August 27, 2017, Hurricane Harvey moved slowly east toward the greater Houston, Texas area wherein the City resides (the "Houston Region"), again stalling (but this time over the Houston Region) for several days. This resulted in significant and wide-spread flooding across the region.

The City experienced minimal damage to some of its facilities. City facilities are operational and such damage did not have a substantial negative affect on the continuing operation of those facilities.

On August 25, 2017, the President of the United States issued a major disaster declaration that included Liberty County, Texas (where the City is located). The major disaster declaration made federal assistance available for debris removal and emergency protective measures, including direct federal assistance, under the United States' Public Assistance program. The City utilized approximately $66,000 from the City's general fund balance to cover a portion of Hurricane Harvey related expenses and has sought or will seek reimbursement from the Federal Emergency Management Agency for eligible disaster-related expenses. The City also intends to file insurance claims to cover eligible losses at sites that sustained damage. Additionally, the City does not anticipate a significant decrease in the property values within the City as a result of Hurricane Harvey.

THE CERTIFICATES

General Description of the Certificates

The Certificates are dated June 1, 2018 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of $5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2019, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Certificates is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on June 4, 2018, and the City's Home Rule Charter.

Security for Payment

Limited Pledge of Ad Valorem Taxes. The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM TAX PROCEDURES" and "TAX RATE LIMITATIONS" herein.)

Limited Revenue Pledge Benefiting the Certificates. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed $1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

Even though the City has pledged the Pledged Revenues of the System to further secure the Certificates, the City does not expect that any Net Revenues from such System will actually be utilized to pay the debt service requirements on the Certificates.

Redemption Provisions of the Certificates

Optional Redemption

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Mandatory Sinking Fund Redemption

The Certificates stated to mature on February 1, 2036 and February 1, 2038 are referred to herein as the "Term Certificates". The Term Certificates are subject to mandatory redemption prior to maturity in part and by lot, at a price equal to the principal amount thereof plus accrued interest to the date of redemption, on February 1, in the years and principal amounts shown below:

Term Certificates Stated to Mature on February 1, 2036		**Term Certificates Stated to Mature on February 1, 2038**	
Year	Principal Amount	Year	Principal Amount
2035	$270,000	2037	$285,000
2036*	280,000	2038*	295,000

*Payable at Stated Maturity.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Certificates, the Paying Agent/Registrar shall select by lot the numbers of the Term Certificates within the applicable Stated Maturity to be redeemed on the next following February 1 from money set aside for that purpose in the Certificate Fund. Any Term Certificates not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Certificate required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Certificates of such stated maturity which, at least fifty (50) days prior to the mandatory redemption date (1) shall have been defeased or acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Certificates or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE CERTIFICATEHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED CERTIFICATES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

Certificates of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Certificate to be partially redeemed must be surrendered in exchange for one or more new Certificates of the same stated maturity and interest rate for the unredeemed portion of the principal. In the event of redemption of less than all of the Certificates of a particular stated maturity, the Paying Agent/Registrar is required to select the Certificates of such stated maturity to be redeemed by such random method as it deems fair and appropriate and which may provide for the selection for redemption of portions (equal to any authorized denomination) of the Certificates of a denomination larger than $5,000.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

If less than all of the Certificates are to be redeemed, the City shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Certificates, or portions thereof, to be redeemed.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City Hall; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's Civic Center; (3) designing, acquiring, constructing, renovating, improving, and equipping City streets, curb, gutter, and sidewalk improvements, demolition, repair, and rebuilding of existing streets (including utilities repair, replacement, and relocation), and drainage incidental thereto; (4) designing, acquiring, constructing, renovating, improving, and equipping City parks and other recreational facilities; (5) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (6) purchasing and equipping public safety vehicles and equipment, public works department vehicles and equipment, and utility system vehicles and equipment; (7) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (8) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

Sources		
Par Amount of the Certificates	$	6,595,000.00
Accrued Interest on the Certificates		16,333.06
Net Original Issue Reoffering Premium		233,171.90
Total Sources of Funds	$	6,844,504.96
Uses		
Construction Fund Deposit	$	6,700,000.00
Purchaser's Discount		45,721.35
Certificate Fund Deposit		16,333.06
Costs of Issuance		82,450.55
Total Uses	$	6,844,504.96

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax-backed indebtedness.

Amendments

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the redemption price or amounts, change the place or places at or the coin or currency in which any Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of default to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, change, modification, or waiver.

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates 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.

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language.

Furthermore, Tooke, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In Wasson Interests, Ltd., v. City of Jacksonville, 489 S.W.3d 427 (Tex. 2016) ("Wasson") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. 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). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem 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 City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion creditors and general principals of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of $5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC's Book-Entry-Only System is used, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15^{th}) day of the month next preceding each interest payment date. 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 will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "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 registered owner of a Certificate 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.

Future Registration

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer 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 Certificates registered and delivered in an exchange or transfer shall be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

Replacement Certificates

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. The person requesting the authentication of and delivery of a replacement Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, 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 Certificates), 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 United States 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 Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Certificates, in the aggregate principal amount of such issue, 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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 registrar and request that copies of notices be provided directly to them.

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

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

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

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Certificates, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates 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 Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

INVESTMENT POLICIES

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

Legal Investment

Under Texas law, the Issuer is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent, (6) (a) certificates of deposit and share certificates issued by a depository institution that has its main office or 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 their respective successors, or are secured as to principal by obligations described in clauses (1) through (5) and clauses (13) and (14) or in any other manner and amount provided by law for Issuer deposits, and in addition (b) the Issuer is authorized, subject to certain conditions, to invest in certificates of deposit with a depository institution that has its main office or branch office in the State of Texas and that participates in the Certificate of Deposit Account Registry Service® network ("CDARS®") and as further provided by Texas law, (7) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) and require the security being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (8) bankers' acceptances with the remaining term of 270 days or less from the date of issuance, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (9) commercial paper with the remaining term of 270 days or less from the date of issuance that is rated at least "A-1" or "P-1" or the equivalent by at least (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, (10) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7, (11) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, (12) public funds investment pools that have an advisory board which includes participants in the pool and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or "AAA-m" or its equivalent, (13) bonds issued, assumed or guaranteed by the State of Israel, and (14) interest bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or otherwise complying with Chapter 2256, as amended, Texas Government Code. Texas law also permits the Issuer to invest bond proceeds in a guaranteed investment contract subject to the limitations set forth in Chapter 2256, as amended, Texas Government Code.

Entities such as the Issuer may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized including accrued income, 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 (5) and clause (13) and (14) above, (b) pledged 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 (5) and clauses (9) and (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to such investing entity or a third party designated by such investing entity; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Under Texas law, the City may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance or resolution. The City has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such services.

Investment Policies

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

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

Additional Provisions

Under Texas law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or 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 mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm 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 Issuer.

Current Investments (1) **TABLE 1**

As of March 31, 2018 the City held investments as follows:

Type of Security	Market Value	Percentage of Total
Prosperity Bank	$ 8,786,245	85.41%
CDARS	1,500,000	14.59%
Total	$ 10,286,245	100.00%

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

(1) Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Tax Code ") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Liberty Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Liberty County Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the Issuer in establishing its tax roll and tax rate.

Property Subject to Taxation by the Issuer

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the City is subject to taxation by the City. Principal categories of exempt property (including certain exemptions which are subject to local option by the City Council) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the Issuer has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and wind-powered energy devices; most individually owned automobiles; certain varying amounts of valuation attributable to residential homesteads of disabled persons or persons ages 65 or over and property of disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; and certain classes of intangible property. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

At an election held on September 13, 2003, the voters of the State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision. On November 2, 2014 the City approved an election granting the "tax freeze".

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is fifty-five years of age or older at the time of the person's death. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation. The freeze on ad valorem taxes on the homesteads of persons 65 years of age or older and the disabled is also transferable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as (i) the taxpayer died in a year in which he qualified for the exemption, (ii) the surviving spouse was at least 55 years of age when the taxpayer died and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and the property remains the residence homestead of the surviving spouse.

Valuation of Property for Taxation

Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property.

State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) years for agricultural open space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the City or an estimate of any new property or improvements within the City. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the City, it cannot be used for establishing a tax rate within the City until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Residential Homestead Exemptions

Under Section 1-b, Article VIII of the Texas Constitution, and State law, the governing body of a political subdivision, at its option, may grant:

1. An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. **The City has elected to grant $20,000 for persons 65 years of age or older and $3,000 for the disabled.**

2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000. **The City has elected to grant this additional exemption in the amount of 10% or a minimum of $5,000.**

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000. The surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until the surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated at less than fair market value to the veteran by a charitable organization.

The surviving spouse of a member of the armed forces who is killed in action in entitled to a property tax exemption for all or a part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of the death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Freeport Goods and Goods-In-Transit Exemption

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. State law requires governmental entities again to take affirmative action on or after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. The City took official action before April 1, 1990 to tax Freeport Property. On October 3, 2011, the City adopted an ordinance to continue the taxation of goods-in-transit.

Tax Abatement

Tax Increment Reinvestment (Financing) Zones: The City, by action of the City Council, may create one or more tax increment reinvestment zones ("TIRZs" or "TIFs") within the City, and in doing so, other overlapping taxing entities may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for public improvements or projects within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value of the taxable real property in the TIRZ is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion (as determined by the City) of the taxes levied by the City against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of the City.

Tax Abatement Agreements: The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City, in turn, agrees not to levy tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Economic Development Programs of Grants and Loans: The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City reviews proposals on a case by case basis. The City has a Chapter 380 Agreement with Jess-John, Inc. (the "Developer"). The Jess-John, Inc. Agreement allows the City to provide City Grant Payments, less City Service Retainage, to the Developer in order to pay for up to one half (1/2 of actual costs of Public Improvements not to exceed $674,530). This Agreement shall be in force and effect from the date of execution, November 17, 2014, for a term expiring the earlier of 15 years thereafter, or on the date that all payments required have been made.

Issuer and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the Issuer, may appeal the orders of the Appraisal Review Board by filing a timely petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

The Tax Code sets forth notice and hearing procedures for certain tax rate increases by the Issuer and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

The Financial Institutions Act of 1989

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC").

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states that (i) no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property tax when due, (iii) no personal property owned by FDIC is subject to ad valorem taxation, and (iv) notwithstanding failure of a person to challenge an appraisal in accordance with State law, such value shall be determined as of the period for which such tax is imposed.

As of the date hereof, the Issuer is not aware of any significant properties in the City which are under the control of the FDIC, however, real property could come under their control while acting as the receiver of an insolvent financial institution. Accordingly, to the extent the FIRREA provisions are valid and applicable to property in the City, and to the extent that the FDIC attempts to enforce the same, the provisions may affect the time at which the Issuer can collect taxes on property owned by the FDIC, if any, in the City.

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. The Issuer does not allow split payments but does allow discounts for early payment.

Issuer's Rights in the Event of Tax Delinquencies

Taxes levied by the Issuer are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the Issuer, having power to tax the property. The Issuer's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Issuer is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the Issuer may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the Issuer must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the City records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions 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.

Property Assessment and Tax Payment

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar 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 installment due on February 1 of each year and the final installment due on August 1.

Industrial Districts in Extraterritorial Jurisdiction

Pursuant to Section 42.044, as amended, Texas Local Government Code, the City is authorized to designate any area within its extraterritorial jurisdiction as an "Industrial District" and contract with the Industrial District to guarantee the continuation of the District's extraterritorial status for a period not to exceed 15 years. In lieu of annexation, and the tax burden such annexation would impose, the landowners within an Industrial District typically agree to pay a lesser portion of those property taxes which they would have paid if the property within the District had been within the City limit. The City currently has two such Industrial Districts.

Nufab Rebar-Dayton, LLC ("Nufab") has entered into a non-annexation agreement with the City, which agreement will terminate on December 31, 2019, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Nufab, for the term of the agreement. Nufab in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limits. For years 2016 through 2019, Nufab will pay the City an amount equivalent to 55% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land's value on January 1 of the prior calendar year. Nufab will pay the City in monthly installments, on the 15th day of each month, for the term of the agreement.

Kinder Morgan Texas Pipeline LLC ("Kinder Morgan") has also entered into a non-annexation agreement with the City, which will terminate December 31, 2022, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Kinder Morgan, for the term of the agreement. Kinder Morgan in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limit. For the year 2018, Kinder Morgan will pay the City an amount equivalent to 56% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land's value on January 1 of the prior calendar year. For years 2019 through 2022, the percentage will increase to 58%. Kinder Morgan will pay the City in annual installments, on or before September 30 of each year, for the term of the agreement.

TAX RATE LIMITATIONS

General

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population: limits the City's maximum ad valorem tax rate to $2.50 per $100 assessed valuation. The Issuer has adopted a Home Rule Charter which does not limit the City's maximum tax rate limit beyond the Constitutional limit of $2.50 per $100 of assessed valuation for all Issuer purposes. No direct funded debt limitation is imposed on the City under current Texas law. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from $1.50 of the foregoing $2.50 maximum tax rate calculated at 90% collection. The issuance of the Certificates does not violate this constitutional provision or the Texas Attorney General's administrative policy.

The Property Tax Code

Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the City Council must adopt a tax rate per $100 taxable value for the current 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.

The City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that exceeds the lower of the rollback rate or 103% of the effective tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. If the adopted tax rate exceeds the rollback tax rate, the qualified voters of the City, by petition, may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

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

The Property Tax Code provides certain cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Property Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election. The Issuer has authorized the additional one-fourth cent sales tax for street maintenance. In addition, the Issuer has approved an additional one-half cent sales tax for economic development, effective July 1, 2004. The Issuer has authorized the additional sales tax for economic development at the rate of 3/8%.

TAX MATTERS

Tax Exemption

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

For taxable years that began before January 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

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

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

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

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

Tax Accounting Treatment of Discount and Premium on Certain Certificates

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

However, such interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax Exempt Obligations for Financial Institutions" herein), life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity Certificates that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed $10,000,000.

The City has designated the Certificates as "qualified tax-exempt obligations" and has certified its expectation that the above-described $10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the 100% disallowance of interest expense allocable to interest on the Certificates under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Certificates will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the

City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information".

Annual Reports

Under State law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request to City Secretary, 117 Cook Street, Dayton, Texas 77535 and upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general obligation type included in Table 1 of the Official Statement and in Tables 1 through 14 of APPENDIX A to this Official Statement, and in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2018. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX D or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March 31 in each year following the end of its fiscal year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB through EMMA.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates 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 Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances;(10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes;(12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Neither the Certificates nor the Ordinance make any provision for debt service reserve funds, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

Availability of Information

Effective July 1, 2009, the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule. All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of specified events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments

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

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Certificates. If the City amends its agreement, it must 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 information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Agreements

During the past five years, except as noted below, the City has complied in all material respects in accordance with SEC Rule 15c2-12.

On June 13, 2014, S&P Global Ratings ("S&P") upgraded the City's existing general obligation debt from "A+" to "AA-". Due to an administrative oversight, the upgrade was not filed in a timely manner. The City filed notice of this upgrade and corresponding notice of failure to timely file on September 17, 2014. The City has instituted internal procedures to ensure timely filing prospectively.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX RATE LIMITATIONS - General", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Certificates are negotiable instruments governed by Chapter 8, as amended, 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. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Certificates must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Rating" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations.

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

The sale of the Certificates has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Certificates have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which they may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Certificates or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

Rating

S&P Global Ratings ("S&P") has assigned an unenhanced, underlying rating of "AA-" to the Certificates. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Certificates.

The Financial Advisor 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 its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of HilltopSecurities (the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net original issue reoffering premium of $233,171.90, less a Purchaser's discount of $45,721.35, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2017, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Concluding Statement

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

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

The Ordinance authorized the issuance of the Certificates and also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Certificates by the Purchaser.

This Official Statement was be approved by the Council for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

CITY OF DAYTON, TEXAS

/s/ Jeff Lambright

Mayor
City of Dayton, Texas

ATTEST:

/s/ Shannon O'Keefe

City Secretary
City of Dayton, Texas

APPENDIX A

FINANCIAL INFORMATION RELATING TO
THE CITY OF DAYTON, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION **TABLE 1**

2017 Actual Certified Market Value of Taxable Property (100% of Market Value)	$	895,842,554
Less Exemptions:		
Over-65 or Disabled Exemption	$	21,155,350
Veterans' Exemption		3,973,381
Productivity Value Loss		62,862,308
Abatement Loss		16,747,960
Homestead		30,012,110
10% Per Year Cap on Res. Homesteads		5,758,244
TOTAL EXEMPTIONS		140,509,353
2017 Assessed Value of Taxable Property	$	755,333,201
Freeze Taxable		36,933,252
Transfer Adjustment		43,558
Freeze Adjusted Taxable Value	$	718,356,391

Source: Liberty County Appraisal District.

GENERAL OBLIGATION BONDED DEBT [(1)]

(as of June 1, 2018)

General Obligation Debt Principal Outstanding		
General Obligation Bonds, Series 2008	$	1,525,000
Tax Notes, Series 2012		120,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015		6,495,000
General Obligation Refunding Bonds, Series 2016		6,335,000
General Obligation Refunding Bonds, Series 2017		7,955,000
Tax Notes, Series 2017		465,000
The Certificates		6,595,000
Total Gross General Obligation Debt	$	29,490,000
Less: Self Supporting Debt		
General Obligation Refunding Bonds, Series 2016(100% Utility System)	$	6,335,000
The Certificates (67.39% Utility System)		4,445,000
Total Self-Supporting Debt	$	10,780,000
Total Net General Obligation Debt Outstanding	$	18,710,000
2017 Net Assessed Valuation	$	755,333,201
Ratio of Total Gross General Obligation Debt Principal to 2015 Certified Net Taxable Assessed Valuation		3.90%
Ratio of Net General Obligation Debt to 2015 Certified Net Taxable Assessed Valuation		2.48%

Population: 1990 - 5,151; 2000 - 5,7019; 2010 - 7,242; est. 2018 - 7,337
Per Capita Certified Net Taxable Assessed Valuation - $102,948.51
Per Capita Gross General Obligation Debt Principal - $4,019.35
Per Capita Net General Obligation Debt Principal - $2,550.09

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE **TABLE 2**

Annual debt service requirements to retire outstanding capital leases are as follows:

FYE 9/30	Principal	Interest
2018	$ 35,764	$ 7,495
2019	37,507	5,752
2020	39,334	3,925
2021	41,249	2,009
Totals	$ 153,854	$ 19,181

Source: The City's Comprehensive Annual Report for Fiscal Year Ending September 30, 2017.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

(as of June 1, 2018)

Fiscal Year Ending 9-30	Current Total Outstanding Debt [(a)]	The Certificates Principal	The Certificates Interest	The Certificates Total	Combined Debt Service	Less: Self Supporting Debt	Total Net Debt Service
2018	$ 2,539,749				$ 2,539,749	$ 738,250	$ 1,801,499
2019	2,546,354	$ 325,000	$ 260,592	$ 585,592	3,131,945	1,082,963	2,048,983
2020	2,536,408	355,000	216,100	571,100	3,107,508	1,080,500	2,027,008
2021	2,393,486	365,000	207,075	572,075	2,965,561	1,082,513	1,883,049
2022	2,398,901	380,000	195,900	575,900	2,974,801	1,079,100	1,895,701
2023	2,156,921	390,000	182,400	572,400	2,729,321	1,077,188	1,652,133
2024	2,156,961	410,000	166,400	576,400	2,733,361	1,081,513	1,651,848
2025	2,150,430	425,000	149,700	574,700	2,725,130	1,079,988	1,645,142
2026	2,155,125	440,000	132,400	572,400	2,727,525	1,079,225	1,648,300
2027	2,150,669	460,000	114,400	574,400	2,725,069	1,074,038	1,651,031
2028	2,154,248	480,000	95,600	575,600	2,729,848	1,072,575	1,657,273
2029	713,256	220,000	81,600	301,600	1,014,856	285,413	729,444
2030	713,197	225,000	73,825	298,825	1,012,022	283,150	728,872
2031	713,088	235,000	66,925	301,925	1,015,013	285,625	729,388
2032	717,888	240,000	59,500	299,500	1,017,388	282,838	734,550
2033	715,844	255,000	51,456	306,456	1,022,300	284,788	737,513
2034	716,425	260,000	43,088	303,088	1,019,513	286,388	733,125
2035	715,575	270,000	34,306	304,306	1,019,881	282,725	737,156
2036	-	280,000	25,025	305,025	305,025	283,800	21,225
2037	-	285,000	15,313	300,313	300,313	284,525	15,788
2038	-	295,000	5,163	300,163	300,163	284,900	15,263
Total	$ 30,344,522	$ 6,595,000	$ 2,176,767	$ 8,771,767	$ 39,116,289	$ 14,372,000	$ 24,744,289

[(a)] *Includes self-supporting debt.*

TAX ADEQUACY (Includes Self-Supporting Debt)

2017 Certified Freeze Adjusted Net Taxable Assessed Valuations	$ 755,333,201	
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2019)	$ 3,131,945	*
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirem	$ 0.4064	

* *Includes the Certificates.*

TAX ADEQUACY (Excludes Self-Supporting Debt)

2017 Certified Freeze Adjusted Net Taxable Assessed Valuations	$ 755,333,201	
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2019)	$ 2,048,983	*
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	$ 0.2658	

* *Includes the Certificates.*

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(as of June 1, 2018)

	Principal Repayment Schedule			Principal	Percent of
Fiscal Year Ending 9-30	Currently Outstanding[(a)]	The Certificates	Total	Unpaid at End of Year	Principal Retired (%)
2018				29,490,000	0.00%
2019	$ 1,825,000	$ 325,000	$ 2,150,000	27,340,000	7.29%
2020	1,870,000	355,000	2,225,000	25,115,000	14.84%
2021	1,775,000	365,000	2,140,000	22,975,000	22.09%
2022	1,815,000	380,000	2,195,000	20,780,000	29.54%
2023	1,735,000	390,000	2,125,000	18,655,000	36.74%
2024	1,780,000	410,000	2,190,000	16,465,000	44.17%
2025	1,820,000	425,000	2,245,000	14,220,000	51.78%
2026	1,875,000	440,000	2,315,000	11,905,000	59.63%
2027	1,925,000	460,000	2,385,000	9,520,000	67.72%
2028	1,985,000	480,000	2,465,000	7,055,000	76.08%
2029	580,000	220,000	800,000	6,255,000	78.79%
2030	595,000	225,000	820,000	5,435,000	81.57%
2031	615,000	235,000	850,000	4,585,000	84.45%
2032	645,000	240,000	885,000	3,700,000	87.45%
2033	665,000	255,000	920,000	2,780,000	90.57%
2034	685,000	260,000	945,000	1,835,000	93.78%
2035	705,000	270,000	975,000	860,000	97.08%
2036	-	280,000	280,000	580,000	98.03%
2037	-	285,000	285,000	295,000	99.00%
2038	-	295,000	295,000	-	100.00%
Total	$ 22,895,000	$ 6,595,000	$ 29,490,000		

[(a)] *Includes self-supporting debt.*

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2008-2017 **TABLE 3**

	Net Taxable	Change From Preceding Year	
Tax Year	Assessed Valuation	Amount ($)	Percent
2008	$ 700,487,207	---	---
2009	659,540,328	(40,946,879)	-5.85%
2010	623,519,729	(36,020,599)	-5.46%
2011	720,041,512	96,521,783	15.48%
2012	688,138,456	(31,903,056)	-4.43%
2013	655,652,364	(32,486,092)	-4.72%
2014	714,940,898	59,288,534	9.04%
2015	749,905,833	34,964,935	4.89%
2016 [(1)]	658,247,341	(91,658,492)	-12.22%
2017	755,333,201	97,085,860	14.75%

Source: Liberty County Appraisal District.

[(1)] *Decrease in taxable assessed value due to decline in oil and gas prices and City's concentration of oil and gas industry businesses located in the railyard (See "PRINCIPAL TAXPAYERS 2017 - Table 4" below). The City expects taxable assessed value to continue to rebound as a result of increasing oil prices.*

PRINCIPAL TAXPAYERS 2017 **TABLE 4**

Name	Type of Business/Property	2017 Net Taxable Assessed Valuation	% of Total 2017 Assessed Valuation
Exxon Chemical Americas	Oil and Gas	$ 61,402,360	8.13%
Total Petrochemicals USA	Oil and Gas	39,008,150	5.16%
Equistar Chemicals LP	Oil and Gas	28,269,440	3.74%
TRT Leaseco LLC	Energy	17,886,320	2.37%
Global Tubing	Wire Products	17,731,770	2.35%
Oxy Vinyls LP	Oil and Gas	17,724,680	2.35%
Westlake Polymers LP	Manufacturer/Supplier	14,856,300	1.97%
Insteel Wire Products Co	Wire Products	14,176,250	1.88%
CIT Group/Capital Finance	Real Estate	9,700,000	1.28%
SAM's East Inc.,	Retail	8,895,040	1.18%
		$ 229,650,310	30.40% *

Source: Liberty County Appraisal District.

** As shown in the table above, the top ten taxpayers in the City account for in excess of 30% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE BONDS- Default and Remedies" and "AD VALOREM TAX PROCEDURES- Issuer's Rights in the Event of Tax Delinquencies" in this Official Statement.*

CLASSIFICATION OF ASSESSED VALUATION **TABLE 5**

	2017	% of Total	2016	% of Total	2015	% of Total
Real, Residential, Single-Family	$ 281,653,345	31.44%	$ 250,886,287	32.47%	$ 223,941,342	25.00%
Real, Residential, Multi-Family	22,031,780	2.46%	16,926,180	2.19%	12,214,130	1.36%
Real, Vacant Lots/Tracts	17,887,135	2.00%	16,977,769	2.20%	15,232,029	1.70%
Real, Acreage (Land Only)	64,662,923	7.22%	43,016,442	5.57%	40,292,738	4.50%
Real, Farm and Ranch Improvements	27,125,156	3.03%	19,942,813	2.58%	18,091,340	2.02%
Real, Commercial and Industrial	139,627,872	15.59%	119,023,570	15.40%	104,953,424	11.72%
Oil and Gas	44,322	0.00%	30,967	0.00%	58,499	0.01%
Real & Tangible, Personal Utilities	25,753,160	2.87%	22,109,680	2.86%	20,982,760	2.34%
Tangible Personal Business	310,889,357	34.70%	277,816,760	35.95%	407,943,140	45.54%
Tangible Personal, Mobile Homes	5,949,094	0.66%	5,418,833	0.70%	4,647,508	0.52%
Special Inventory	218,410	0.02%	530,700	0.07%	362,130	0.04%
Total Appraised Value	$ 895,842,554	100.00%	$ 772,680,001	100.00%	$ 848,719,040	94.74%
Less:						
Over-65 or Disabled Exemption	$ 21,155,350		$ 20,067,793		$ 16,593,488	
Veterans' Exemption	3,973,381		3,803,267		1,881,098	
Productivity Value Loss	62,862,308		41,355,551		38,462,021	
Abatement Loss	16,747,960		14,208,520		13,955,960	
Homestead	30,012,110		29,641,939		26,003,829	
10% Per Year Cap on Res. Homesteads	5,758,244		5,355,590		1,916,811	
Net Taxable Assessed Valuation	$ 755,333,201		$ 658,247,341		$ 749,905,833	

Source: Liberty County Appraisal District.

TAX DATA **TABLE 6**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections Current	% of Collections Total	Year Ended
2008	$ 700,487,207	$ 0.634900	$ 4,447,393	97.03	98.44	9/30/2009
2009	659,540,328	0.725600	4,785,625	96.21	97.54	9/30/2010
2010	623,519,729	0.724500	4,517,400	95.69	99.61	9/30/2011
2011	720,041,512	0.630400	4,539,142	97.03	99.66	9/30/2012
2012	688,138,456	0.685300	4,715,813	97.87	102.17	9/30/2013
2013	655,652,364	0.722900	4,739,711	97.22	103.15	9/30/2014
2014	714,940,898	0.690000	4,933,092	96.55	98.24	9/30/2015
2015	749,905,833	0.670000	5,024,369	98.70	102.59	9/30/2016
2016	658,247,341	0.685300	4,510,969	98.09	101.94	9/30/2017
2017	755,333,201	0.670000	5,060,732	(In process of collection)		9/30/2018

TAX RATE DISTRIBUTION **TABLE 7**

	2017	2016	2015	2014	2013
General Fund	$ 0.429500	$ 0.497100	$ 0.451000	$ 0.444000	$ 0.450900
Interest and Sinking Fund	0.240500	0.188200	0.229000	0.246000	0.272000
Total	$ 0.670000	$ 0.685300	$ 0.680000	$ 0.690000	$ 0.722900

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Liberty County Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2017, and information supplied by the Issuer.

MUNICIPAL SALES TAX COLLECTIONS TABLE 8

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The City's approved a 1/2 cent sales tax for property relief to be effective 10/1/96. The City has an additional 1/2 of 1 cent for its Economic Development Corporation (4B). Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2009	$ 1,304,057	29.32%	$ 0.186
2010	1,267,417	26.48%	0.192
2011	1,518,814	33.62%	0.244
2012	1,923,649	42.38%	0.267
2013	2,061,560	43.72%	0.300
2014	2,633,398	55.56%	0.402
2015	2,581,859	52.34%	0.361
2016	2,121,260	42.22%	0.283
2017	2,209,675	48.98%	0.336
2018	550,620	(As of April, 2018)	

Source: State Comptroller's Office of the State of Texas.

OVERLAPPING DEBT INFORMATION

(as of June 1, 2018)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer 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 below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 4/1/18)	% Overlapping	Amount Overlapping
Dayton ISD	$ 88,315,000	45.53%	$ 40,209,820
Liberty County	11,510,000	15.68%	1,804,768
Liberty ISD	40,774,995	0.05%	20,387
Total Gross Overlapping Debt			$ 42,034,975
Dayton, City of			$ 29,490,000 *
Total Gross Direct and Overlapping Debt			$ 71,524,975 *
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			9.47% *
Per Capita Direct and Overlapping Debt			$9,748.53 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas
** Includes the Certificates.*

Note: The above figures show Gross General Obligation Debt for the City of Dayton, Texas. The Issuer's Net General Obligation Debt is $18,710,000. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	$ 60,744,975 *
Ratio of Direct and Overlapping Debt to Net Assessed Valuation	8.04% *
Per Capita Direct and Overlapping Debt	$8,279.27 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas
** Includes the Certificates.*

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	% of Actual	2017 Tax Rate
Dayton ISD	$ 1,708,186,040	100%	$ 1.390000
Liberty County	5,141,438,982	100%	0.579000
Liberty ISD	904,596,373	100%	1.394000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Dayton ISD	None			
Liberty County	None			
Liberty ISD	5/9/2015	$ 33,500,000	$ 33,359,370	$ 140,630

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES **TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2017 [1]	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Fund Balance - Beginning of Year	$ 7,123,392	$ 7,304,444	$ 7,335,994	$ 6,461,853	$ 5,416,975
Revenues	$ 5,731,182	$ 6,329,676	$ 6,494,811	$ 6,114,807	$ 6,178,441
Expenditures	7,483,170	6,775,728	5,876,361	5,240,666	5,633,563
Excess (Deficit) of Revenues Over Expenditures	$ (1,751,988)	$ (446,052)	$ 618,450	$ 874,141	$ 544,878
Other Financing Sources (Uses):					
Operating Transfers In	$ 3,000,000	$ 265,000	$ -	$ -	$ 500,000
Operating Transfers Out	(5,412,417)	-	(650,000)	-	-
Debt Issued	575,000	-	-	-	-
Capital Leases	-	-	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
Total Other Financing Sources (Uses):	$ (1,837,417)	$ 265,000	$ (650,000)	$ -	$ 500,000
Prior Period Adjustment	-	-	-	-	-
Fund Balance - End of Year	$ 3,533,987	$ 7,123,392	$ 7,304,444	$ 7,335,994	$ 6,461,853

Source: The City's Comprehensive Annual Report for Fiscal Year Ending September 30, 2017.

[1] Fund balance was drawn down deliberately to fund expansion of the City's Law Enforcement Center ($2,500,000) as well as cover a one-time revenue shortfall of $700,000 from decreased tax revenues related to the City's railyard and suppressed oil and gas prices. With the rebound in Oil prices, the City anticipates budgetary relief from increased assessed value of their largest taxpayers in Fiscal Year 2018 and beyond.

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (The TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefits provisions are adopted by the governing body of the city, within the options available in the state statues governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12,24,or 36 monthly payments, which cannot exceed 75% of the Member's deposits and interest.

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

	2017	2016
Employee deposit rate	7.00%	7.00%
Matching Ratio (City to Employee)	2 to 1	2 to 1
Years Required for Vesting	5	5
Service Retirement Eligibility	60/5, 0/20	60/5, 0/20
Updated service Credit	0% Transfers	0% Transfers
Annuity Increase (to retirees)	0% of CPI	0% of CPI

Employees covered by benefit terms

At the December 31, 2016 valuation and measurement date the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to but not yet receiving benefits	60
Active employees	87
Total	183

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Dayton, Texas, were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City of Dayton, Texas, were 7.41% and 6.25% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $296,886, and were equal to the required contributions.

Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table with Blue Collar Adjustments are used with male rates multiplied by 109 percent and females rates multiplied by 103 percent with a tree-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Morality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and females rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	100.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liabilty was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive vemployees. Therefore, the long-term expected rate of return on pension plan invesments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Changes in the Net Pension Liability

	Increase(Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Changes for the year:			
Service cost	$ 490,826	$ -	$ 490,826
Interest	474,157	-	474,157
Difference between Expected			-
and Actual Experience	-	-	-
Changes of assumptions	54,782		54,782
Contributions - Employer	-	239,287	(239,287)
Contributions - Employee	-	268,002	(268,002)
Net Investment Income	-	393,037	(393,037)
Benefit Payments, Including			-
Refunds of Employee Contributions	(267,708)	(267,708)	-
Administrative Expense	-	(4,449)	4,449
Other Changes	-	(240)	240
Net Changes	752,057	627,929	124,128
Balance at 12/31/2014	6,912,988	5,827,872	1,085,116
Balance at 12/31/2015	$ 7,665,045	$ 6,455,801	$ 1,209,244

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 2,277,709	$ 1,209,244	$ 326,810

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City of Dayton, Texas, recognized pension expense of $472,261.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 59,864	$ (4,148)
Changes in actuarial assumptions	104,835	
Difference between projected and actual investment earnings	258,383	-
Contributions subsequent to the measurement date	238,643	-
Total	$ 661,725	$ (4,148)

$238,643 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended 12/31	Pension Expense Amount
2018	$ 165,091
2019	161,380
2020	90,414
2021	2,049
Total	$418,934

TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributiontothe TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were $1,660, $1,568, and $1,466, respectively. The City's contribution rates for the past three years are shown below.

	2017	2016	2015
Annual Req. Contrib. (Rate)	0.04%	0.04%	0.03%
Actual Contributions Made	0.04%	0.04%	0.03%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

UTILITY SYSTEM PLANT IN OPERATION **TABLE 11**

	FYE 9/30/2017
Land	$ 107,408
Construction in Progress	463,626
Machinery and Equipment	2,095,304
Buildings and Improvements	3,086,121
Water and Sewer System	28,034,187
Total Capital Assets	$33,786,646
Less: Accumulated Depreciation	(17,989,045)
Net Capital Assets	$15,797,601

Source: The Issuer's Annual Financial Report for fiscal year ended September 30, 2017.

WATERWORKS SYSTEM OPERATING SYSTEM **TABLE 12**

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, bad debt, debt service payments and expenditures identified as capital.

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Revenues	$ 3,810,885	$ 3,403,231	$ 3,214,972	$ 3,127,657	$ 3,089,990
Expenses	1,920,234	1,856,547	1,741,922	1,682,620	1,560,107
Net Revenue Available for Debt Service	$ 1,890,651	$ 1,546,684	$ 1,473,050	$ 1,445,037	$ 1,529,883
Customer Count:					
Water	3,331	3,189	3,124	3,074	3,057
Sewer	2,855	2,812	2,767	2,717	2,724

Source: The Issuer's Annual Financial Reports and information provided by the Issuer .

WATER RATES* **TABLE 13**

Effective July 1, 2016

New Rates

Gallons	Rates
Base Rate	$21.00 Base Rate
2,001 and over	$3.55 per $1,000 gallons of metered water

Old Rates

Gallons	Rates
First 2,000	$18.00 Base Rate
2,001 and over	$3.55 per 1,000 gallons of metered water

** Water rates for customers inside of the City's ETJ shall pay 1.5X the rates stated above and customers outside of the ETJ shall pay 2X the rates stated above.*

SEWER RATES* **TABLE 14**

Effective July 1, 2016

New Rates

Gallons	Rates
First 2,000	$21.00 Base Rate
2,001 and over	$3.55 per $1,000 gallons of metered water

Old Rates

Gallons	Rates
First 2,000	$18.00 Base Rate
2,001 and over	$3.55 per 1,000 gallons of metered water

** Sewer rates for customers inside of the City's ETJ shall pay 1.5X the rates stated above and customers outside of the ETJ shall pay 2X the rates stated above.*

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF DAYTON AND LIBERTY COUNTY, TEXAS

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GENERAL INFORMATION

City of Dayton

The City of Dayton (the "City") is located in southwest Liberty County where State Highway 146 meets U.S. Highway 90. The City was recorded as an incorporated municipality on May 3, 1911. The City's 2018 population is approximately 7,337.

The City provides a full range of municipal services including public safety, residential solid waste sanitation services, water and wastewater services, public improvements, repair and maintenance of infrastructure, recreational and community activities, and general administrative services. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government.

The City continued its commitment to the Rosewood Water Well Rebuild project. This multi-year capital improvement project will provide a long-term water solution for our ever-growing community. Analysis of its estimated capacity, once completed, indicates that the City will have the ability to double its current population, without further infrastructure commitments, within the next 15 to 20 years.

2017 PRINCIPAL EMPLOYERS

Employer	Employees
Dayton Independent School District	765
Global Tubing	220
City of Dayton	117
Insteel Wire	103
Dayton Leasing and Supply	100
Huntsman Chemical	100
Roll-Lift USA	80
Sam's Distribution	53
Harris Rebar LLC	50
Fabrications and Construction Services	46
Total	1,634

Dayton Independent School District

The Dayton Independent School District (the "District") is located 34 miles northeast of the City of Houston, Texas in Liberty County, Texas. A small portion of the District extends into Harris County, Texas. The economy is based on mineral production, agriculture, and lumbering. Since the industries of the Baytown area and the industries along the Houston Ship Channel are within easy driving range, many of the residents of the District commute to industrial jobs. The City of Dayton, Texas is the principal retail center of the District, located on U.S. Highway 90.

School	Grade	Enrollment 2016-17	Enrollment 2015-16	Enrollment 2014-15	Enrollment 2013-14
Colbert Elmentary	Pre K	225	228	203	230
Stephen F. Austin Elementary	K-1st	857	786	806	740
Dr. E.R. Richter Elementary	2nd-3rd	763	812	769	731
Kimmie M. Brown Elementary	4th-5th	796	808	772	733
Nottingham Middle School	6th	-	-	-	403
Woodrow Wilson Junior High School	7th-8th	1,223	1,192	799	818
Dayton High School	9th-12th	1,524	1,480	1,448	1,406
Total		5,388	5,306	4,797	5,061

Liberty County

Liberty County, is located in southeast Texas on U.S. Highway 90 halfway between Beaumont and Houston. The County occupies an area of approximately 1,176 square miles and serves a population of approximately 76,000. The city of Liberty is the County seat. The County's economy is diversified and has historically been based on mineral production (Oil and gas), agriculture, and lumber. The cities within the County offer may recreational and cultural opportunities.

Liberty County produces diversified crops including rice, sorghum, soybeans, corn, grains, fruits and vegetables. Beef cattle, sheep, poultry, hogs, and goats are raised and honey is produced commercially. Natural resources include timber, oil, natural gas, lignite, sulfur, iron ore, lime, salt, brick clay, and glass sand. Manufacturing facilities include chemicals and machinery.

Labor Force Statistics (1)

	2018(2)	2017 (3)	2016 (3)	2015 (3)	2014 (3)
Civilian Labor Force	32,251	31,713	31,480	30,920	30,982
Total Employed	30,213	29,466	29,115	28,789	28,763
Total Unemployed	2,038	2,247	2,365	2,131	2,219
% Unemployment	6.3%	7.1%	7.5%	6.9%	7.2%
Texas Unemployment	4.1%	4.3%	4.6%	4.4%	5.1%

(1) Source: Texas Workforce Commission.
(2) As of March, 2018.
(3) Average Annual Statistics.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Norton Rose Fulbright US LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

FINAL

IN REGARD to the authorization and issuance of the "City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018" (the *Certificates*), dated June 1, 2018 in the aggregate principal amount of $6,595,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Dayton, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of $5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2019 through 2034, February 1, 2036, and February 1, 2038, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer's combined utility system and 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 Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer also previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals, or, except as hereinafter described, corporations.

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

APPENDIX D

FINANCIAL SATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Dayton, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Dayton, Texas (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Houston
3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville
P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin
100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices
www.texasauditors.com
info@ txauditors.com
713.263.1550 fax

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of the City's proportionate share of net pension liability, and schedules of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements, fund schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
May 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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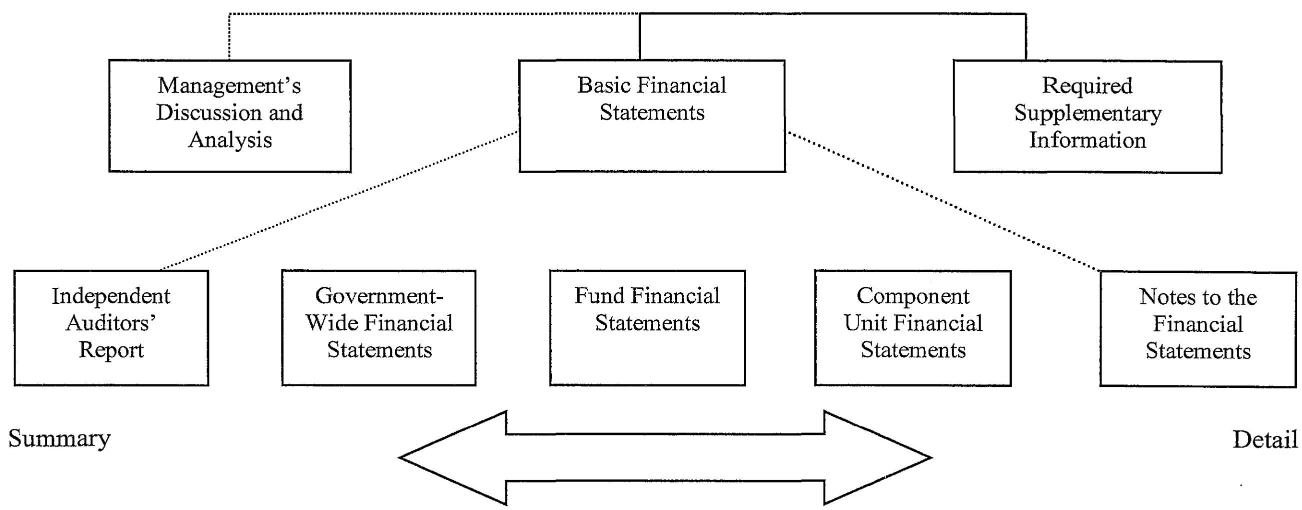
The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Dayton, Texas (the "City") for the year ending September 30, 2017. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administration (City manager, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.

2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment, and refuse services.

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

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are governmental and proprietary.

Governmental Funds

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

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

The City maintains five 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, debt service fund, and capital projects fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and hotel and motel tax fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water and sewer impact, water construction operations, and refuse services. The proprietary fund financial statements provide separate information for the water and sewer fund and refuse fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its employees benefit program. Because these services predominantly benefit governmental rather than business-type functions, this has been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedule of changes in net pension liability and related ratios, schedule of the City's proportionate share of the net pension liability, and schedules of contributions for the Texas Municipal Retirement System and the Texas Emergency Services Retirement System. RSI can be found after the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $27,412,910, as of September 30, 2017 for the primary government.

A portion of the City's net position, $17,988,088, reflects its investments in capital assets (e.g., land, City hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2017			2016		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	$ 7,201,190	$ 4,854,092	$ 12,055,282	$ 15,084,114	$ 3,994,332	$ 19,078,446
Capital assets, net	26,894,787	15,797,601	42,692,388	20,179,152	16,606,694	36,785,846
Total Assets	34,095,977	20,651,693	54,747,670	35,263,266	20,601,026	55,864,292
Deferred charge on refunding	206,577	-	206,577	1,582	-	1,582
Deferred outflows - pensions	548,656	122,205	670,861	586,915	135,368	722,283
Total Deferred Outflows of Resources	755,233	122,205	877,438	588,497	135,368	723,865
Other liabilities	980,241	409,248	1,389,489	1,174,236	528,800	1,703,036
Long-term liabilities	19,181,368	7,637,379	26,818,747	19,653,938	7,847,868	27,501,806
Total Liabilities	20,161,609	8,046,627	28,208,236	20,828,174	8,376,668	29,204,842
Deferred inflows - pensions	2,979	983	3,962	7,585	1,869	9,454
Total Deferred Inflows of Resources	2,979	983	3,962	7,585	1,869	9,454
Net Position:						
Net investment in capital assets	9,583,333	8,404,755	17,988,088	6,558,718	8,972,226	15,530,944
Restricted	2,158,771	-	2,158,771	6,344,697	-	6,344,697
Unrestricted	2,944,518	4,321,533	7,266,051	2,112,589	3,385,631	5,498,220
Total Net Position	$ 14,686,622	$ 12,726,288	$ 27,412,910	$ 15,016,004	$ 12,357,857	$ 27,373,861

A portion of the City's net position, $2,158,771 or 7.9 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $7,266,051, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by $39,049 as compared to the prior year.

Compared to the prior year, current assets decreased by $7,023,164 while noncurrent assets increased $5,906,542. These variances are largely attributable to current year capital projects. The decrease in current assets was mainly attributed to decreases in cash as payment for capital project related items. Current liabilities decreased $313,547 compared to the prior year due to a decrease in accounts payable and other short term payable items.

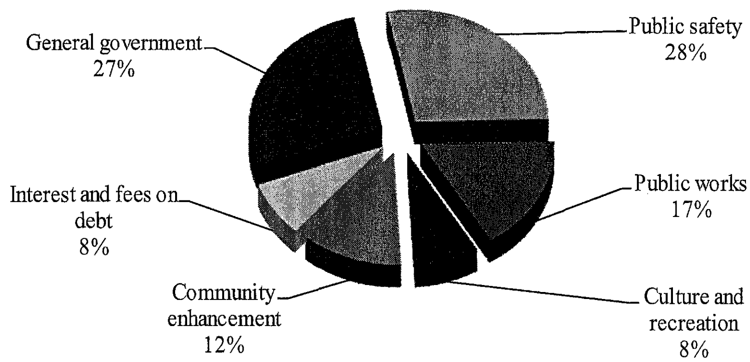
Statement of Activities:

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

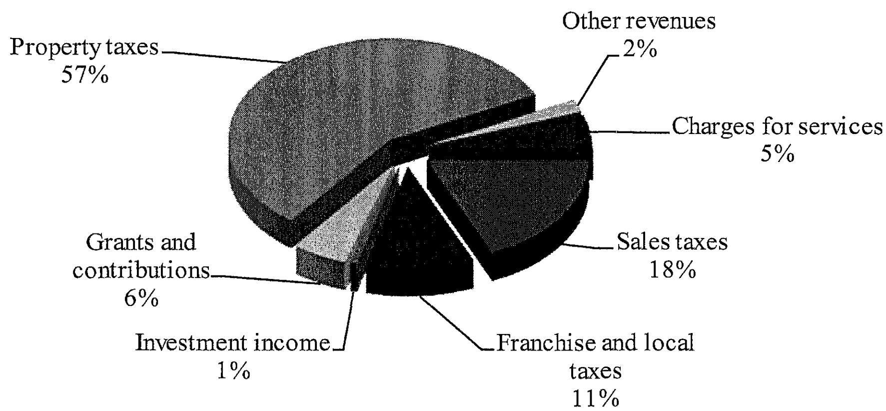
	2017			2016		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	$ 438,116	$ 4,925,811	$ 5,363,927	$ 523,725	$ 4,455,061	$ 4,978,786
Grants and contributions	438,513	-	438,513	140,542	-	140,542
General revenues:						
Property taxes	4,503,923	-	4,503,923	5,123,388	-	5,123,388
Sales taxes	1,455,191	-	1,455,191	1,428,294	-	1,428,294
Franchise and local taxes	844,839	-	844,839	816,409	-	816,409
Investment income	59,747	17,968	77,715	52,876	11,529	64,405
Other revenues	152,086	72,973	225,059	122,032	34,907	156,939
Total Revenues	7,892,415	5,016,752	12,909,167	8,207,266	4,501,497	12,708,763
Expenses						
General government	2,292,956	-	2,292,956	1,550,223	-	1,550,223
Public safety	2,338,072	-	2,338,072	2,792,742	-	2,792,742
Public works	1,407,482	-	1,407,482	1,437,126	-	1,437,126
Culture and recreation	656,111	-	656,111	522,139	-	522,139
Community enhancement	1,034,674	-	1,034,674	860,409	-	860,409
Interest and fees on debt	669,299	-	669,299	708,990	-	708,990
Water and sewer	-	3,431,061	3,431,061	-	3,625,937	3,625,937
Refuse	-	1,040,464	1,040,464	-	932,668	932,668
Total Expenses	8,398,593	4,471,525	12,870,118	7,871,629	4,558,605	12,430,234
Change in Net Position Before Transfers	(506,178)	545,227	39,049	335,637	(57,108)	278,529
Transfers	176,796	(176,796)	-	693,928	(693,928)	-
Total Transfers and Capital Contributions	176,796	(176,796)	-	693,928	(693,928)	-
Change in Net Position	(329,382)	368,431	39,049	1,029,565	(751,036)	278,529
Beginning net position	15,016,004	12,357,857	27,373,861	13,986,439	13,108,893	27,095,332
Ending Net Position	$ 14,686,622	$ 12,726,288	$ 27,412,910	$ 15,016,004	$ 12,357,857	$ 27,373,861

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

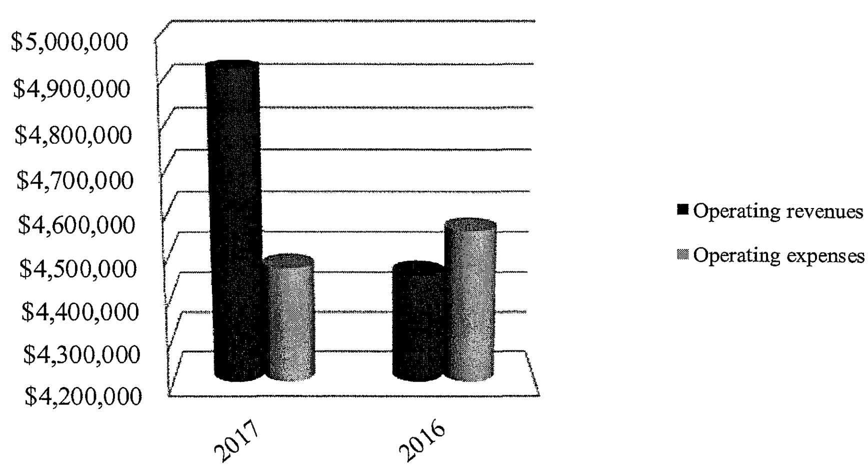
Governmental Activities - Expenses



Governmental Activities - Revenues



Business-Type Activities - Revenues and Expenses



For the year ended September 30, 2017, revenues from governmental activities totaled $7,892,415. Compared to the prior year, governmental revenues decreased by $314,851. This decrease was largely due to a decrease in property tax revenues, which was the result of a decrease in property tax valuations in the current year. This decrease was partially offset by an increase in sales tax revenues from an increase of consumer activity during the fiscal year, along with an increase in grants and contributions related to a public safety grant.

For the year ended September 30, 2017, expenses from governmental activities totaled $8,398,593, which was an increase of $526,964 compared to the prior year. This increase is primarily due to an increase in personnel-related costs, pension expense, and noncapital projects.

For the year ended September 30, 2017, charges for services related to business-type activities totaled $4,925,811. This is an increase of $470,750 or 10.6 percent from the previous year due to an increase in total customers and gallons consumed. Business-type expenses totaled $4,471,525, which is a decrease of $87,080 from the prior year. This decrease is largely due to a decrease in personnel costs and pension expense.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

As of the end of the year, the City's governmental funds reflect a combined fund balance of $5,610,540. Of this, $8,404 is nonspendable for prepaid items and inventory, and $2,158,771 is restricted for various purposes. Unassigned fund balance totaled $3,443,365 as of year end. There was a combined decrease in governmental fund balances of $7,759,842 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $3,443,365, while total fund balance reached $3,533,987. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents approximately 46 percent of total general fund expenditures.

Compared to the prior year, general fund revenues decreased $598,494. This decrease is primarily due to a decrease in property tax revenue based on lower property valuations. The decrease is partially offset by increases to sales and franchise taxes due to growth within the City. Expenditures increased $707,442 compared to the prior year. This increase is primarily due to an increase in personnel costs and public safety expenditures.

The debt service fund has a total fund balance of $1,841,424, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was $101,674. This increase can be attributed to a transfer in from the water and sewer fund.

The capital project fund has a total fund balance of $104,688, all of which is restricted for capital projects. The net decrease in fund balance during the fiscal year was $4,271,130 due to the construction of a public safety facilities building.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of $6,163,835 in the general fund. The net change in the general fund balance was a decrease of $3,589,405. Actual general fund revenues were less than the amended budgeted revenues by $227,413 during 2017 due primarily to negative budget variances in property taxes and sales tax revenues. Actual expenditures were lower than total budgeted amounts by $301,843. Positive expenditure budget variances were recognized by all departments. The positive budget variances were due to several factors including the City's practice of budgeting personnel costs conservatively high.

CAPITAL ASSETS

As of the end of the year, the City's governmental and business-type activities had invested $42,692,388 in a variety of capital assets and infrastructure, net of accumulated depreciation. This represents a net increase of $5,906,542.

Major capital asset events during the year include the following:

- Public safety facility building for $10,549,461
- Three new police vehicles for $96,746
- Fiber optic network cables for $101,452
- Water meter reader truck for $19,850
- New street sweeper for $188,979

More detailed information about the City's capital assets is presented in note III.C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total general obligation bonds, certificates of obligation, tax anticipation notes, and capital leases outstanding of $24,813,854. Of this amount, $17,165,000 was general obligation debt, certificates of obligation accounted for $6,680,000, $815,000 for tax anticipation notes, and capital leases totaled $153,854.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For fiscal year 2018, the City approved a $13,803,577 revenue budget and a $14,684,318 expense/expenditure budget. General fund revenues were budgeted at $6,833,024 while expenditures were budgeted at $6,822,924. The water and sewer fund revenues were budgeted at $4,151,600 while the expenses were budgeted at $3,228,916. The property tax rate will decrease to $0.6700. Property tax revenues were budgeted at $3,285,600 for fiscal year 2018. Sales tax is the second largest revenue source in the general fund, making up 23 percent of the City's general fund budgeted revenue.

The City's financial stability remains strong and City management and Council are in constant review of the City's fund balance to ensure that there are sufficient funds always on hand to cover any unplanned events.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

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BASIC FINANCIAL STATEMENTS

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CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	DCDC
Assets				
Cash and cash equivalents	$ 4,521,861	$ 2,844,484	$ 7,366,345	$ 758,759
Investments	1,500,000	1,005,933	2,505,933	2,127,234
Receivables, net	1,106,221	869,819	1,976,040	139,559
Internal balances	59,963	(59,963)	-	-
Due from component unit	4,741	-	4,741	-
Inventories	7,048	91,827	98,875	-
Prepaid items	1,356	-	1,356	-
Restricted assets:				
Cash and cash equivalents	-	101,992	101,992	-
Capital assets:				
Nondepreciable	1,384,811	571,034	1,955,845	-
Net depreciable capital assets	25,509,976	15,226,567	40,736,543	-
Total Assets	34,095,977	20,651,693	54,747,670	3,025,552
Deferred Outflows of Resources				
Deferred charge on refunding	206,577	-	206,577	-
Deferred outflows - pensions (TMRS)	516,128	122,205	638,333	23,391
Deferred outflows - pensions (TESRS)	32,528	-	32,528	-
Total Deferred Outflows of Resources	755,233	122,205	877,438	23,391
Liabilities				
Accounts payable and accrued liabilities	901,536	274,859	1,176,395	2,359
Due to primary government	-	-	-	4,741
Customer deposits	-	101,992	101,992	-
Accrued interest payable	78,705	32,397	111,102	-
Unearned revenue - other	-	-	-	-
Noncurrent liabilities:				
Due within one year	1,324,106	560,110	1,884,216	-
Due in more than one year	17,857,262	7,077,269	24,934,531	43,558
Total Liabilities	20,161,609	8,046,627	28,208,236	50,658
Deferred Inflows of Resources				
Deferred inflows - pensions (TMRS)	2,979	983	3,962	186
Deferred inflows - pensions (TESRS)	-	-	-	-
Total Deferred Inflows of Resources	2,979	983	3,962	186
Net Position				
Net investment in capital assets	9,583,333	8,404,755	17,988,088	-
Restricted for:				
Debt service	1,841,424	-	1,841,424	-
Public safety	4,057	-	4,057	-
Capital projects	104,688	-	104,688	-
PEG Fees	78,161	-	78,161	-
Tourism	130,441	-	130,441	-
Economic development	-	-	-	2,998,099
Unrestricted	2,944,518	4,321,533	7,266,051	-
Total Net Position	$ 14,686,622	$ 12,726,288	$ 27,412,910	$ 2,998,099

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	$ 2,292,956	$ -	$ 2,960
Public safety	2,338,072	374,383	4,655
Public works	1,407,482	63,733	430,898
Culture and recreation	656,111	-	-
Community enhancement	1,034,674	-	-
Interest and fees on debt	669,299	-	-
Total Governmental Activities	8,398,593	438,116	438,513
Business-Type Activities			
Water and sewer	3,431,061	3,724,552	-
Refuse	1,040,464	1,201,259	-
Total Business-Type Activities	4,471,525	4,925,811	-
Total Primary Government	$ 12,870,118	$ 5,363,927	$ 438,513
Component Unit			
Dayton Community Development Corporation	$ 759,931	$ -	$ -

General Revenues:
Taxes
Property taxes
Sales taxes
Franchise and local taxes
Investment income
Other revenues
Transfers
Total General Revenues and Transfers
Change in Net Position
Beginning net position
Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	DCDC
$ (2,289,996)	$ -	$ (2,289,996)	$ -
(1,959,034)	-	(1,959,034)	-
(912,851)	-	(912,851)	-
(656,111)	-	(656,111)	-
(1,034,674)	-	(1,034,674)	-
(669,299)	-	(669,299)	-
(7,521,964)	-	(7,521,964)	-
-	293,491	293,491	-
-	160,795	160,795	-
-	454,286	454,286	-
(7,521,964)	454,286	(7,067,678)	-
$ -	$ -	$ -	$ (759,931)
$ 4,503,923	$ -	$ 4,503,923	$ -
1,455,191	-	1,455,191	727,594
844,839	-	844,839	-
59,747	17,968	77,715	16,129
152,086	72,973	225,059	50
176,796	(176,796)	-	-
7,192,582	(85,855)	7,106,727	743,773
(329,382)	368,431	39,049	(16,158)
15,016,004	12,357,857	27,373,861	3,014,257
$ 14,686,622	$ 12,726,288	$ 27,412,910	$ 2,998,099

CITY OF DAYTON, TEXAS

BALANCE SHEET
GOVERNMENTAL FUNDS

September 30, 2017

	General	Debt Service	Capital Projects	Nonmajor Funds
Assets				
Cash and cash equivalents	$ 1,795,908	$ 1,823,147	$ 563,857	$ 338,487
Investments	1,500,000	-	-	-
Receivables, net	866,940	228,242	-	10,051
Due from component unit	4,741	-	-	-
Due from other funds	259,620	18,277	-	-
Prepaid items	1,356	-	-	-
Inventory	7,048	-	-	-
Total Assets	$ 4,435,613	$ 2,069,666	$ 563,857	$ 348,538
Liabilities				
Accounts payable and accrued liabilities	$ 441,238	$ -	$ 459,169	$ 163
Due to other funds	-	-	-	217,934
Total Liabilities	441,238	-	459,169	218,097
Deferred Inflows of Resources				
Unavailable revenue - property taxes	460,388	228,242	-	-
Fund Balances				
Nonspendable:				
Prepaid items	1,356	-	-	-
Inventory	7,048	-	-	-
Restricted:				
Debt service	-	1,841,424	-	-
Capital projects	-	-	104,688	-
Public safety	4,057	-	-	-
PEG fees	78,161	-	-	-
Tourism	-	-	-	130,441
Unassigned	3,443,365	-	-	-
Total Fund Balances	3,533,987	1,841,424	104,688	130,441
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 4,435,613	$ 2,069,666	$ 563,857	$ 348,538

See Notes to Financial Statements.

Total Governmental Funds
$ 4,521,399
1,500,000
1,105,233
4,741
277,897
1,356
7,048
$ 7,417,674
$ 900,570
217,934
1,118,504
688,630
1,356
7,048
1,841,424
104,688
4,057
78,161
130,441
3,443,365
5,610,540
$ 7,417,674

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CITY OF DAYTON, TEXAS

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

September 30, 2017

Total fund balances – total governmental funds		$ 5,610,540
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - nondepreciable	1,384,811	
Capital assets - net depreciable	25,509,976	
		26,894,787
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		688,630
An internal service fund is used by management to charge the costs of employee benefits to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.		484
Some deferred outflows, deferred inflows, and liabilities, including bonds payable and net pension liability, are not reported as liabilities in the governmental funds.		
Accrued interest payable	(78,705)	
Noncurrent liabilities due in one year	(1,324,106)	
Noncurrent liabilities due in more than one year	(17,857,262)	
Deferred outflows - pensions	548,656	
Deferred inflows - pensions	(2,979)	
Deferred charge on refunding	206,577	
		(18,507,819)
Net Position of Governmental Activities		$ 14,686,622

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	General	Debt Service	Capital Project	Nonmajor Funds
Revenues				
Property tax	$ 2,702,372	$ 1,767,139	$ -	$ -
Sales tax	1,455,191	-	-	-
Franchise and local taxes	418,439	-	-	92,523
Licenses and permits	63,733	-	-	-
Intergovernmental	188,464	-	-	242,434
Fines and forfeitures	284,130	-	-	-
Charges for services	90,253	-	-	-
Investment income	39,677	7,616	11,951	377
Contributions and donations	2,960	-	-	-
Payments in lieu of taxes	333,877	-	-	-
Other revenue	152,086	-	-	-
Total Revenues	5,731,182	1,774,755	11,951	335,334
Expenditures				
Current:				
General government	2,293,082	-	-	7,000
Public safety	2,972,468	-	6,695,498	-
Public works	1,143,594	-	-	-
Culture and recreation	396,328	-	-	-
Community enhancement	210,993	-	-	275,142
Community center	398,446	-	-	-
Tourism promotion	-	-	-	54,173
Debt service:				
Principal	34,103	1,345,000	-	-
Interest and fiscal charges	9,156	584,367	-	-
Debt issuance costs	25,000	94,327	-	-
Total Expenditures	7,483,170	2,023,694	6,695,498	336,315
(Deficiency) of Revenues (Under) Expenditures	(1,751,988)	(248,939)	(6,683,547)	(981)
Other Financing Sources (Uses)				
Transfers in	3,000,000	366,030	2,412,417	-
Transfers (out)	(5,412,417)	-	-	-
Bonds issued	-	8,045,000	-	-
Payment to refunded bond escrow agent	-	(8,060,417)	-	-
Debt issued	575,000	-	-	-
Total Other Financing Sources (Uses)	(1,837,417)	350,613	2,412,417	-
Net Change in Fund Balances	(3,589,405)	101,674	(4,271,130)	(981)
Beginning fund balances	7,123,392	1,739,750	4,375,818	131,422
Ending Fund Balances	$ 3,533,987	$ 1,841,424	$ 104,688	$ 130,441

See Notes to Financial Statements.

Total Governmental Funds
$ 4,469,511
1,455,191
510,962
63,733
430,898
284,130
90,253
59,621
2,960
333,877
152,086
7,853,222
2,300,082
9,667,966
1,143,594
396,328
486,135
398,446
54,173
1,379,103
593,523
119,327
16,538,677
(8,685,455)
5,778,447
(5,412,417)
8,045,000
(8,060,417)
575,000
925,613
(7,759,842)
13,370,382
$ 5,610,540

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CITY OF DAYTON, TEXAS

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

For the Year Ended September 30, 2017

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

Net changes in fund balances - total governmental funds	$	(7,759,842)
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.		
Capital outlay		7,588,624
Depreciation expense		(872,989)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		34,412
An internal service fund is used by management to charge the costs of employee benefits to individual funds. The net revenue (expense) is reported with governmental activities.		(839)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. The net pension liability and deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.		
Accrued interest		37,340
Debt issued		(8,620,000)
Premium on bonds issued		126,633
Principal expenditures		9,114,103
Deferred charges		204,995
Net pension liability		(101,778)
Deferred outflows - pensions		(38,259)
Deferred inflows - pensions		4,606
Compensated absences		(46,388)
Change in Net Position of Governmental Activities	$	(329,382)

See Notes to Financial Statements.

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CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2017

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
Assets				
Current Assets				
Cash and cash equivalents	$ 1,706,121	$ 1,138,363	$ 2,844,484	$ 462
Investments	1,005,933	-	1,005,933	-
Restricted assets - customer deposits	101,992	-	101,992	-
Receivables, net	685,528	184,291	869,819	988
Inventories	91,827	-	91,827	-
Total Current Assets	3,591,401	1,322,654	4,914,055	1,450
Noncurrent Assets				
Capital assets:				
Nondepreciable	544,849	26,185	571,034	-
Net depreciable capital assets	14,932,098	294,469	15,226,567	-
Total Noncurrent Assets	15,476,947	320,654	15,797,601	-
Total Assets	19,068,348	1,643,308	20,711,656	1,450
Deferred Outflows of Resources				
Deferred outflows - pensions	112,694	9,511	122,205	-
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	185,459	89,400	274,859	966
Due to other funds	59,661	302	59,963	-
Customer deposits	101,992	-	101,992	-
Accrued interest payable	32,397	-	32,397	-
Current portion of compensated absences	15,110	-	15,110	-
Current portion of bonds payable, net	545,000	-	545,000	-
Total Current Liabilities	939,619	89,702	1,029,321	966
Noncurrent Liabilities				
Compensated absences	1,679	-	1,679	-
Bonds payable, net	6,847,846	-	6,847,846	-
Net pension liability	209,616	18,128	227,744	-
Total Liabilities	7,998,760	107,830	8,106,590	966
Deferred Inflows of Resources				-
Deferred inflows - pensions	888	95	983	-
Net Position				
Net investment in capital assets	8,084,101	320,654	8,404,755	-
Unrestricted	3,097,293	1,224,240	4,321,533	484
Total Net Position	$ 11,181,394	$ 1,544,894	$ 12,726,288	$ 484

See Notes to Financial Statements.

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CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
Operating Revenues				
Water and sewer charges	$ 3,724,552	$ -	$ 3,724,552	$ -
Sanitation	-	1,201,259	1,201,259	-
Other services	72,973	-	72,973	866,003
Total Operating Revenues	3,797,525	1,201,259	4,998,784	866,003
Operating Expenses				
Personnel services	987,344	94,536	1,081,880	866,968
Services	259,604	903,717	1,163,321	-
Supplies	116,861	6,261	123,122	-
Utilities	330,837	2,920	333,757	-
Repairs and maintenance	201,850	9,545	211,395	-
Depreciation	1,367,558	22,159	1,389,717	-
Miscellaneous	23,738	1,326	25,064	-
Total Operating Expenses	3,287,792	1,040,464	4,328,256	866,968
Operating Income (Loss)	509,733	160,795	670,528	(965)
Nonoperating Revenues (Expenses)				
Investment income	13,360	4,608	17,968	126
Interest and fiscal agent charges	(143,269)	-	(143,269)	-
Total Nonoperating Revenues (Expenses)	(129,909)	4,608	(125,301)	126
Income (Loss) Before Transfers	379,824	165,403	545,227	(839)
Transfers				
Capital contribution	-	189,234	189,234	-
Transfers (out)	(366,030)	-	(366,030)	-
Total Transfers and Contributions	(366,030)	189,234	(176,796)	-
Change in Net Position	13,794	354,637	368,431	(839)
Beginning net position	11,167,600	1,190,257	12,357,857	1,323
Ending Net Position	$ 11,181,394	$ 1,544,894	$ 12,726,288	$ 484

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2017

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
Cash Flows from Operating Activities				
Receipts from customers	$ 3,392,506	$ 1,127,889	$ 4,520,395	$ -
Receipts from interfund charges	-	-	-	866,990
Payments to suppliers	(1,003,904)	(917,290)	(1,921,194)	(869,059)
Payments to employees	(948,973)	(88,635)	(1,037,608)	(1,184)
Net Cash Provided (Used) by Operating Activities	1,439,629	121,964	1,561,593	(3,253)
Cash Flows from Noncapital Financing Activities				
Transfer to other funds	(366,030)	-	(366,030)	-
Net Cash (Used) by Noncapital Financing Activities	(366,030)	-	(366,030)	-
Cash Flows from Capital and Related Financing Activities				
Capital purchases	(391,390)	-	(391,390)	-
Principal paid on capital debt	(195,000)	-	(195,000)	-
Interest paid on capital debt	(189,891)	-	(189,891)	-
Net Cash (Used) by Capital and Related Financing Activities	(776,281)	-	(776,281)	-
Cash Flows from Investing Activities				
Purchase of investments	(1,331)	-	(1,331)	-
Interest on investments	13,360	4,608	17,968	126
Net Cash Provided by Investing Activities	12,029	4,608	16,637	126
Net Increase (Decrease) in Cash and Cash Equivalents	309,347	126,572	435,919	(3,127)
Beginning cash and cash equivalents	1,498,766	1,011,791	2,510,557	3,589
Ending Cash and Cash Equivalents	$ 1,808,113	$ 1,138,363	$ 2,946,476	$ 462
Ending Cash and Cash Equivalents				
Unrestricted cash and cash equivalents	$ 1,706,121	$ 1,138,363	$ 2,844,484	$ 462
Restricted cash and cash equivalents	101,992	-	101,992	-
Ending Cash and Cash Equivalents	$ 1,808,113	$ 1,138,363	$ 2,946,476	$ 462

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2017

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities				
Operating income (loss)	$ 509,733	$ 160,795	$ 670,528	$ (965)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,367,558	22,159	1,389,717	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Deferred outflows - pensions	9,569	3,593	13,162	-
Accounts receivable	(368,837)	(74,037)	(442,874)	987
Intergovernmental receivables	-	667	667	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(71,014)	6,479	(64,535)	(2,091)
Due to other funds	19,093	302	19,395	-
Net pension liability	19,383	1,509	20,892	-
Deferred inflows - pensions	(822)	497	(325)	(1,184)
Customer deposits	(10,766)	-	(10,766)	-
Compensated absences	10,241	-	10,241	-
Accrued interest payable	(37,713)	-	(37,713)	-
Unearned revenue	(6,796)	-	(6,796)	-
Net Cash Provided (Used) by Operating Activities	$ 1,439,629	$ 121,964	$ 1,561,593	$ (3,253)
Noncash investing, capital, and financing activities:				
Contributions of capital assets from governmental funds	$ -	$ 189,234	$ -	$ -

See Notes to Financial Statements.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dayton, Texas (the "City") is a Home Rule City. The City operates under a "Mayor-Council" form of government and provides services authorized by its charter. Presently, these services include: public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administrative services.

The City Council is the principal legislative body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component unit, as listed below, although legally separate, is considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and is fiscally independent of other state and local governments. Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Unit

Dayton Community Development Corporation

In May 1996, the City formed the Dayton Community Development Corporation (the "Corporation"), which was created by voters approving an additional sales tax. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of seven directors (voting members) and four advisory directors (nonvoting), each of whom is appointed by the City Council. The City Council may remove a Board member from office at any time without cause. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. The Corporation has been included in the reporting entity as a discretely presented component unit. The City has the ability to impose its will on the Corporation because it approves the Corporation's budget and the City is legally entitled to, and has, complete access to the Corporation's economic resources. As a discretely presented component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation is funded by the levy of one-half of one percent sales and use tax. The Corporation has a September 30 year end. Financial statements for the Corporation may be obtained by contacting Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and an internal service fund, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, and community enhancement. The general fund is always considered a major fund for reporting purposes.

The *debt service fund* is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The hotel and motel tax and community development block grant special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The City reports the following enterprise funds:

The *enterprise funds* are used to account for the operations that provide water and wastewater collection, wastewater treatment operations, and the operations that provide garbage services to the public. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and sewer fund and refuse fund are considered major funds for reporting purposes.

Additionally, the City reports the following fund type:

Internal service funds account for services provided to other departments of the City, or to other governments, on a cost reimbursement basis. The employee benefit fund is used to account for insurance provided to City employees.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds and internal service fund) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary 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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of supplies for infrastructure repairs and maintenance. The cost of such inventories is recorded as expenditure/expenses when consumed rather than when purchased.

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

Property, plant, and equipment of the primary government, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years.

Asset Description	Estimated Useful Life
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has six items that qualify for reporting in this category on the government-wide Statement of Net Position. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made. Another deferred charge has been recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for the change in actuarial assumptions. This amount is deferred and amortized over the average of the expected service lives of pension plan members. Another deferred charge has been recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions. This amount is deferred and amortized over the average of the expected service lives of pension plan members. Lastly, a deferred charge on refunding resulting from the difference in the carrying value of refunded debt and its reacquisition price has been recognized. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized as a result of differences between the actuarial expectations and the actual economic experience related to the City's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

7. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

Assets acquired under the terms of capital leases are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the general fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

8. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

9. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. 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, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's fiduciary net position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on January 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget as defined by the charter is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended September 30, 2017.

A. Expenditures in Excess of Appropriations

Expenditures exceed appropriations at the legal level of control in the debt service fund for payment to refunded bond escrow agent in the amount of $8,060,417.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2017, the City had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 2,505,933	0.42
Portfolio weighted average maturity		0.42

As of September 30, 2017, the Corporation had the following investments:

Investment Type	Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 2,127,234	0.41
Portfolio weighted average maturity		0.41

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective fair value of at least 103 percent. As of September 30, 2017, the fair values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

B. Receivables

The following comprise receivable balances at year end for governmental and enterprise funds:

	General	Debt Service	Nonmajor Governmental	Component Unit
Property tax	$ 459,808	$ 228,242	$ -	$ -
Sales tax	364,737	-	-	139,559
Other tax	39,574	-	-	-
Other	2,821	-	10,051	-
	$ 866,940	$ 228,242	$ 10,051	$ 139,559

	Water and Sewer	Refuse	Internal Service
Accounts	$ 688,383	$ 184,939	$ 988
Other	133	-	-
Less allowance	(2,988)	(648)	-
	$ 685,528	$ 184,291	$ 988

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end is as follows:

	Beginning Balance	Increases	(Decreases)/ (Reclasses)	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 1,384,811	$ -	$ -	$ 1,384,811
Construction in progress	2,578,627	6,584,144	(9,162,771)	-
Total capital assets, not being depreciated	3,963,438	6,584,144	(9,162,771)	1,384,811
Other capital assets:				
Infrastructure	4,550,157	101,452	-	4,651,609
Buildings and improvements	14,026,437	9,111,786	-	23,138,223
Machinery and equipment	4,927,688	954,013	(22,177)	5,859,524
Total other capital assets	23,504,282	10,167,251	(22,177)	33,649,356
Less accumulated depreciation for:				
Infrastructure	(1,095,135)	(197,177)	-	(1,292,312)
Buildings and improvements	(2,601,529)	(350,467)	-	(2,951,996)
Machinery and equipment	(3,591,904)	(325,345)	22,177	(3,895,072)
Total accumulated depreciation	(7,288,568)	(872,989)	22,177	(8,139,380)
Other capital assets, net	16,215,714	9,294,262	-	25,509,976
Governmental Activities Capital Assets, Net	$ 20,179,152	$ 15,878,406	$ (9,184,948)	26,894,787
			Less debt associated with capital assets	(18,081,888)
			Plus unspent bond proceeds	563,857
			Plus deferred charge on refunding	206,577
			Net Investment in Capital Assets	$ 9,583,333

Depreciation was charged to governmental functions as follows:

General government	$	54,821
Public safety		225,236
Public works		245,701
Culture and recreation		265,914
Community enhancement		81,317
Total Governmental Activities Depreciation Expense	$	872,989

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balance	Increases	(Decreases)/ (Reclasses)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 107,408	$ -	$ -	$ 107,408
Construction in progress	144,202	319,424	-	463,626
Total capital assets not being depreciated	251,610	319,424	-	571,034
Other capital assets:				
Building and improvements	3,086,121	-	-	3,086,121
Machinery and equipment	1,843,604	251,700	-	2,095,304
Water and sewer system	28,024,687	9,500	-	28,034,187
Total other capital assets	32,954,412	261,200	-	33,215,612
Less accumulated depreciation for:				
Building and improvements	(417,260)	(146,603)	-	(563,863)
Machinery and equipment	(1,242,237)	(121,179)	-	(1,363,416)
Water and sewer system	(14,939,831)	(1,121,935)	-	(16,061,766)
Total accumulated depreciation	(16,599,328)	(1,389,717)	-	(17,989,045)
Other capital assets, net	16,355,084	(1,128,517)	-	15,226,567
Business-Type Activities Capital Assets, Net	$ 16,606,694	$ (809,093)	$ -	15,797,601
			Less associated debt	(7,392,846)
			Net Investment in Capital Assets	$ 8,404,755

Depreciation was charged to business-type functions as follows:

Water and sewer	$	1,367,558
Refuse		22,159
Total Business-Type Activities Depreciation Expense	$	1,389,717

D. Long-Term Debt

The following is a summary of changes in the City's long-term liabilities for the year end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Governmental Activities:						
Bonds, notes and other payables:						
General obligation bonds	$ 11,025,000	$ 8,045,000	$ 8,785,000	$ 10,285,000	*	$ 805,000
Tax anticipation notes	355,000	575,000	115,000	815,000	*	230,000
Certificates of obligation	6,860,000	-	180,000	6,680,000	*	185,000
Total bonds, notes, and and other payables	18,240,000	8,620,000	9,080,000	17,780,000		1,220,000
Plus deferred amounts:						
Issuance premiums	274,667	-	126,633	148,034	*	-
Capital leases	187,957	-	34,103	153,854	*	35,764
Other liabilities:						
Net pension liability (TMRS)	838,765	99,177	-	937,942		-
Net pension liability (TESRS)	83,002	2,601	-	85,603		-
Compensated absences	29,547	141,945	95,557	75,935		68,342
Total Governmental Activities	$ 19,653,938	$ 8,863,723	$ 9,336,293	$ 19,181,368		$ 1,324,106
			Long-term liabilities due in more than one year	$ 17,857,262		
			***Debt associated with governmental activity capital assets**	$ 18,081,888		

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Business-Type Activities:						
General obligation bonds	$ 6,880,000	$ -	$ -	$ 6,880,000	*	$ 545,000
Certificates of obligation	195,000	-	195,000	-		-
Total bonds payable	7,075,000	-	195,000	6,880,000		545,000
Plus deferred amounts:						
Issuance premiums	559,468	-	46,622	512,846		-
Other liabilities:						
Net pension liability (TMRS)	206,852	20,892	-	227,744		
Compensated absences	6,548	26,059	15,818	16,789		15,110
Total Business-Type Activities	$ 7,847,868	$ 46,951	$ 257,440	$ 7,637,379		$ 560,110
			Long-term liabilities due in more than one year	$ 7,077,269		
			***Debt associated with capital assets**	$ 7,392,846		

The following is a summary of changes in the Corporation's long-term liabilities for the year end:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit:					
Net pension liability (TMRS)	$ 39,500	$ 4,058	$ -	$ 43,558	$ -
Total Component Unit Activities	$ 39,500	$ 4,058	$ -	$ 43,558	$ -

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Advanced Refunding

The City issued $8,045,000 in general obligation refunding bonds with an interest rate of 2.23%. The proceeds were used to advance refund $7,735,000 of outstanding 2008 series general obligation bonds which had interest rates ranging from 4.00% to 5.25%. The net proceeds of $8,154,744 (of which $7,950,673 represents the deposit to escrow and $109,744 represents the issuers contribution) were payed to an escrow agent to provide funds for the future debt service payments on the refunded bonds. As a result, the 2008 series general obligation bonds are considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by $224,494. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The City refunded the 2008 series general obligation bonds to reduce its total debt service payments over the next 10 years by $1,173,394 and obtained an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,012,990.

Long-term debt at year end was comprised of the following debt issues:

Description		Original Issue	Interest Rates		Balance
Governmental Activities:					
General Obligation Bonds					
2008 general obligation bonds	$	13,255,000	4.00-5.25%		2,240,000
2017 general obligation refunding bonds		8,045,000	2.23%		8,045,000
	Total General Obligation Bonds				10,285,000
Tax Anticipation Notes					
2012 tax anticipation notes	$	700,000	1.30-2.00%		240,000
2017 tax anticipation notes		575,000	1.68%		575,000
	Total Tax Anticipation Notes				815,000
Certificates of Obligation					
2015 certificates of obligation	$	6,990,000	2.00-4.00%		6,680,000
Capital Leases	$	335,000	2.6-3.5%		153,854
Total Governmental Activities Long-Term Debt				$	17,933,854
Business-Type Activities:					
General Obligation Bonds					
2016 general obligation refunding bonds	$	6,880,000	2.00-4.00%	$	6,880,000
	Total General Obligation Bonds			$	6,880,000

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sept. 30	Governmental Activities: General Obligation Bonds Principal	Interest	Certificates of Obligation Principal	Interest	Tax Anticipation Notes Principal	Interest
2018	$ 805,000	$ 498,105	$ 185,000	$ 188,619	$ 230,000	$ 5,128
2019	835,000	256,544	190,000	184,869	235,000	3,390
2020	870,000	224,443	310,000	179,869	115,000	1,200
2021	895,000	190,961	175,000	175,019	115,000	-
2022	920,000	163,403	175,000	171,519	120,000	-
2023-2027	4,910,000	503,924	950,000	786,453	-	-
2028-2032	1,050,000	46,551	2,640,000	565,369	-	-
2033-2035	-	-	2,055,000	92,844	-	-
Total	$ 10,285,000	$ 1,883,932	$ 6,680,000	$ 2,344,559	$ 815,000	$ 9,718

Year Ending Sept. 30	Business-Type Activities: General Obligation Bonds Principal	Interest
2018	$ 545,000	$ 248,375
2019	565,000	193,250
2020	575,000	182,150
2021	590,000	170,750
2022	600,000	159,100
2023-2027	3,275,000	557,050
2028-2032	730,000	57,800
Total	$ 6,880,000	$ 1,568,475

General obligation bonds, tax anticipation notes, and certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds, certificates of obligation, and tax anticipation notes are from taxes levied on all taxable property located within the City. The City has issued debt for the purpose of capital asset acquisition and infrastructure improvements.

Annual debt service requirements to retire outstanding capital leases are as follows:

Year Ending Sept. 30	Governmental Activities Principal	Interest
2018	35,764	7,495
2019	37,507	5,752
2020	39,334	3,925
2021	41,249	2,009
Totals	$ 153,854	$ 19,181

The assets acquired through capital leases are as follows:

		Governmental Activities
Assets:		
Machinery and equipment	$	335,000
Less: accumulated depreciation		(96,313)
Total	$	238,687

E. Interfund Transactions

The composition of interfund balances as of year end is as follows:

Receivable Fund	Payable Fund		Amounts
General	Nomajor Special Revenue	$	217,934
General	Water and sewer		41,384
General	Refuse		302
Debt Service	Water and sewer		18,277
		$	277,897

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

Transfers between the primary government funds during the 2017 fiscal year were as follows:

		Transfers In		Transfers Out
Governmental Funds:				
Individual major governmental funds:				
General	$	3,000,000	$	5,412,417
Capital project		2,412,417		
Debt service		366,030		-
Total Governmental Funds		5,778,447		5,412,417
Enterprise Funds:				
Individual major enterprise funds:				
Water and sewer		-		366,030
Total Enterprise Funds		-		366,030
Total Transfers	$	5,778,447	$	5,778,447

Amounts transferred between funds relate to amounts collected by water and sewer and the refuse funds for various governmental expenditures and debt payments.

F. Fund Equity

Funds restricted by enabling legislation are $4,057, $130,441, and $78,161, related to municipal court technology and building security, tourism, and communications respectively.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amounts of expenditures that may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.

All eligible employees of the City are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a partial lump sum distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75 percent of the member's deposits and interest.

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

	2017	**2016**
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility	60/5, 0/20	60/5, 0/20
(expressed as age/yrs of service)		
Updated service credit	0% Transfers	0% Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	36
Inactive employees entitled to, but not yet receiving, benefits	60
Active employees	87
Total	183

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City-matching percentages are either 100 percent, 150 percent, or 200 percent, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.41 percent and 6.25 percent in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were $296,886, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the EAN actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the TPL was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability (A)	**Plan Fiduciary Net Position (B)**	**Net Pension Liability (A) - (B)**
Changes for the year:			
Service cost	$ 490,826	$ -	$ 490,826
Interest	474,157	-	474,157
Difference between expected and actual experience	-	-	-
Changes of assumptions	54,782	-	54,782
Contributions - employer	-	239,287	(239,287)
Contributions - employee	-	268,002	(268,002)
Net investment income	-	393,037	(393,037)
Benefit payments, including refunds of employee contributions	(267,708)	(267,708)	-
Administrative expense	-	(4,449)	4,449
Other changes	-	(240)	240
Net Changes	752,057	627,929	124,128
Balance at December 31, 2014	6,912,988	5,827,872	1,085,116
Balance at December 31, 2015	$ 7,665,045	$ 6,455,801	$ 1,209,244

Sensitivity of the NPL to Changes in the Discount Rate

The following presents the NPL of the City, calculated using the discount rate of 6.75 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	**Discount Rate (6.75%)**	**1% Increase in Discount Rate (7.75%)**
City's Net Pension Liability	$ 2,277,709	$ 1,209,244	$ 326,810

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

Pension Expense and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

For the fiscal year ended September 30, 2017, the City recognized net pension expense of $472,261.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 59,864	$ (4,148)
Changes in actuarial assumptions	104,835	-
Difference between projected and actual investment earnings	258,383	-
Contributions subsequent to the measurement date	238,643	-
Total	$ 661,725	$ (4,148)

$238,643 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2018	$ 165,091
2019	161,380
2020	90,414
2021	2,049
Total	$ 418,934

2. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the Texas Emergency Services Retirement System (TESRS) and established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2016, there were 197 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2016, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	2,991
Terminated members entitled to, but not yet receiving, benefits	2,211
Active participants	4,016

Pension Plan Fiduciary Net Position

Detailed information about TESRS's fiduciary net position is available in a separately-issued CAFR that includes financial statements and required supplementary information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and required supplementary information, and can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50 percent vested after the tenth year of service, with the vesting percentage increasing ten percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic post retirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part

Two contributions were established by the Board to be two percent, if the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining TESRS to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in TESRS.

A small subset of participating departments has a different contribution arrangement that is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2016, total contributions (dues, prior service, and interest on prior service financing) of $14,364 were paid by the City. The State appropriated $1,583,825 for the fiscal year ending August 31, 2016 to the plan as a whole.

Actuarial Assumptions

The TPL in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	8/31/2016
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	N/A
*Includes inflation at	3.00%
Cost of living adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.45%) and by adding expected inflation (3.50%). In addition, the final 7.75 percent assumption reflected a reduction of 0.20 percent for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities		
Large cap domestic	32.0%	5.72%
Small cap domestic	10.0%	5.96%
Developed international	21.0%	6.21%
Emerging markets	6.0%	7.18%
Master limited partnership	5.0%	7.61%
Fixed income		
Domestic	21.0%	1.61%
International	5.0%	1.81%
Total	100.0%	
Weighted average		4.97%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

The following presents the NPL of the City, calculated using the discount rate of 7.75 percent, as well as what the City's NPL would be if it were calculated using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease in Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase in Discount Rate (8.75%)
City's proportionate share of the net pension liability	$ 144,928	$ 85,603	$ 47,805

Pension Liabilities, Pension Expense, and Deferred Outflows/Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the City reported a liability of $85,603 for its proportionate share of TESRS's NPL. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective NPL		$	85,603
*State's proportionate share that is associated with the City			29,594
	Total	$	115,197

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.*

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2016. GASB Statement No. 68 requires the net pension liability to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the net pension liability to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report a net pension liability measured as of August 31, 2016. The City used the assumption that any differences in the net pension liability measured as of August 31, 2016 versus September 30, 2016 would be immaterial. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016, the employer's proportion of the collective NPL was 0.311 percent, which was an increase of 0.010 percent from its proportion measured as of August 31, 2015.

There were no changes of assumptions or other inputs that affected measurement of the TPL during the measurement period.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended August 31, 2016, the City recognized pension expense of $9,663. The City recognized on-behalf revenues of $4,655 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At August 31, 2016, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual investment earnings	$ 16,209	$ -
Changes in assumptions	1,823	
Changes in proportion and employer and proportionate share of contributions	132	-
Contributions paid to TESRS subsequent to the measurement date	14,364	-
Total	$ 32,528	$ -

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Years Ended September 30	Pension Expense
2017	$ 4,752
2018	4,752
2019	7,520
2020	1,140
Total	$ 18,164

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contribution to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were $1,660, $1,568, and $1,466, respectively. The City's contribution rates for the past three years are shown below.

	2017	2016	2015
Annual Req. Contrib. (Rate)	0.04%	0.04%	0.04%
Actual Contribution Made	0.04%	0.04%	0.04%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payments to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

F. Chapter 380 Economic Development Agreement

Chapter 380 of the Texas Local Government Code, *Miscellaneous Provisions Relating to Municipal Planning and Development*, provides that the authority to the governing body of a municipality may establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality.

In November 2014, the City approved a Chapter 380 Economic Development Agreement with Jess-John, Inc. (the "Developer"). The Developer plans to construct residential housing that will require the development of infrastructure for City services for the tract of land within the City. The City has agreed to pay the Developer up to one half of the cost of improvements, not to exceed $674,530.

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