

OFFICIAL STATEMENT
March 22, 2018

The Certificates are not obligations described in section 103(a) of the Internal Revenue Code of 1986; accordingly, interest on the Certificates will be includable in gross income for federal income tax purposes. See "TAX MATTERS" herein.

\$2,325,000
CITY OF HUDSON OAKS, TEXAS
(A political subdivision of the State of Texas located in Parker County, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2018

Dated Date: March 15, 2018

Due: February 1, as shown on inside cover

The \$2,325,000 City of Hudson Oaks, Texas Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018 (the "Certificates") are being issued pursuant to 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, and an ordinance (the "Ordinance") adopted by the City Council of the City of Hudson Oaks, Texas (the "City" or "Issuer") on March 22, 2018. (See "THE CERTIFICATES - Authority for Issuance" herein.)

These Certificates constitute direct obligations of the Issuer, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) surplus Net Revenues (as defined in the Ordinance) of the City's Waterworks and Sewer System, as provided in the Ordinance (see "THE CERTIFICATES – Authority for Issuance").

Interest on the Certificates will accrue from March 15, 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: (i) finance the construction and equipping of certain public improvements necessary to accommodate the construction of a mixed-use commercial center, including a new 65,000 square foot HEB grocery store and commercial space located near the intersection of U.S. Highway 180 and Lakeshore Drive in the City, which public improvements generally consist of improvements to the City's waterworks and sewer system, public drainage improvements, and street improvements; (ii) provide additional funds to acquire and install fiber optic cable in various locations in the City in order to connect, and provide improved communication between, City Hall and various City facilities such as public safety facilities, water and wastewater facilities; (iii) pay all or a portion for the legal, fiscal, engineering and other professional fees in connection with the Projects; and (iv) pay the costs of issuance related thereto. (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 (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., 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" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about April 19, 2018.

\$2,325,000
CITY OF HUDSON OAKS, TEXAS
(A political subdivision of the State of Texas located in Parker County, Texas)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2018

MATURITY SCHEDULE*
(Due February 1)

CUSIP Prefix No. 444086⁽¹⁾

\$900,000 Serial Certificates

Stated				CUSIP
Maturity	Principal	Interest	Initial	No.
<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u>⁽¹⁾
2019	\$ 45,000	5.000%	2.300%	DZ2
2020	75,000	5.000%	2.650%	EA6
2021	80,000	5.000%	2.800%	EB4
2022	85,000	5.000%	2.950%	EC2
2023	90,000	5.000%	3.050%	ED0
2024	95,000	5.000%	3.150%	EE8
2025	100,000	5.000%	3.200%	EF5
2026	105,000	5.000%	3.250%	EG3
2027	110,000	5.000%	3.300%	EH1
2028	115,000	4.000%	3.350% ⁽²⁾	EJ7

\$245,000 4.000% Term Certificate due February 1, 2030 and priced to Yield 3.400% ⁽²⁾ CUSIP Suffix ⁽¹⁾ EL2
\$260,000 4.000% Term Certificate due February 1, 2032 and priced to Yield 3.500% ⁽²⁾ CUSIP Suffix ⁽¹⁾ EN8
\$285,000 4.000% Term Certificate due February 1, 2034 and priced to Yield 3.600% ⁽²⁾ CUSIP Suffix ⁽¹⁾ EQ1
\$305,000 4.000% Term Certificate due February 1, 2036 and priced to Yield 3.700% ⁽²⁾ CUSIP Suffix ⁽¹⁾ ES7
\$330,000 4.000% Term Certificate due February 1, 2038 and priced to Yield 3.800% ⁽²⁾ CUSIP Suffix ⁽¹⁾ EU2

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2027, 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 a premium will be redeemed on February 1, 2027, 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 HUDSON OAKS, TEXAS
210 Hudson Oaks Drive
Hudson Oaks, Texas 76087
(682) 229-2400 – Phone

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Pat Deen Mayor	11	2018	OEM Business Manager
Tom Fitzpatrick Mayor Pro-Tem	16	2019	Business Manager
Tom Marquardt Councilmember, Place 1	11	2018	Engineer
Brian Lixey Councilmember, Place 2	7	2019	Corporate Banker
Marty Schrantz Councilmember, Place 3	4	2018	Project Manager
Marc Povero Councilmember, Place 5	5	2019	Police Officer

ADMINISTRATION

Name	Position	Length of Service (Years)
Patrick Lawler	City Administrator	11
Chad Janicek	Assistant City Administrator	4
Doug Martella	Finance Analyst	3
Shelley Scazzero	City Secretary	6

CONSULTANTS AND ADVISORS

Bond CounselMcCall, Parkhurst & Horton L.L.P.
San Antonio, Texas

Certified Public Accountants George Morgan & Sneed, P.C.
Weatherford, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

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Mr. Andrew T. Friedman
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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 Initial 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.

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 Hudson Oaks, Texas (the "City" or "Issuer") is a political subdivision of the State of Texas, located in Parker County on Highway 180, just north of Interstate 20. The City is 27 miles west of downtown Fort Worth, Texas. The City is a Type A general law municipality and operates under an Administrator/Council form of government with a City Council comprised of the Mayor and five Councilmembers. Some of the services that the City provides are: public safety (police), streets, water and sanitary sewer utilities, recycling, and general administrative services. The City's 2010 census population was 1,662 and the City's estimated 2018 population is 2,345. The City covers approximately 2.5 square miles. See Appendix B – "General Information Regarding the City of Hudson Oaks, Texas and Parker County, Texas" herein.
The Certificates	The Certificates are issued as \$2,325,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018. The Certificates are issued as serial certificates maturing February 1, 2019 through February 1, 2028 and as Term Certificates maturing February 1, 2030, February 1, 2032, February 1, 2034, February 1, 2036 and February 1, 2038 (see "THE CERTIFICATES – General Description").
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 City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the City's waterworks and sewer system (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the System, all as provided in the Ordinance authorizing the Certificates (the "Ordinance"). See "THE CERTIFICATES – Security for Payment".
Redemption Provision of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2028, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2027, 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	The Certificates are <u>not</u> obligations described in section 103(a) of the Internal Revenue Code of 1986; accordingly, interest on the Certificates will be includable in gross income for federal income tax purposes. See "TAX MATTERS" 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: (i) finance the construction and equipping of certain public improvements necessary to accommodate the construction of a mixed-use commercial center, including a new 65,000 square foot HEB grocery store and commercial space located near the intersection of U.S. Highway 180 and Lakeshore Drive in the City, which public improvements generally consist of improvements to the City's waterworks and sewer system, public drainage improvements, and street improvements; (ii) provide additional funds to acquire an install fiber optic cable in various locations in the City in order to connect, and provide improved communication between, City Hall and various City facilities such as public safety facilities, water and wastewater facilities (iii) to pay all or a portion for the legal, fiscal, engineering and other professional fees in connection with the Projects; and (iv) to pay the costs of issuance related thereto. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Ratings	S&P Global Ratings ("S&P") has assigned an underlying, unenhanced rating of "AA" to the Certificates. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
Payment Record	The Issuer has never defaulted on the payment of its ad valorem tax-backed indebtedness.

Future Bond 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 April 19, 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 McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT
RELATING TO
CITY OF HUDSON OAKS, TEXAS
\$2,325,000
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2018
INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Hudson Oaks, Texas (the "City" or the "Issuer") of its \$2,325,000 Combination Tax and Revenue Certificates of Obligation, Taxable Series 2018 (the "Certificates") identified on the cover page hereof.

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 authorizing the Certificates (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.

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated March 15, 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 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, and the Ordinance adopted by the City Council of the City (the "City Council") on March 22, 2018.

Security for Payment

The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property in the City and (ii) the surplus revenues of the waterworks and sewer system (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the System, all as provided in the Ordinance.

Although the City is obligated to levy an ad valorem tax to pay debt service on the Certificates, if necessary, the City has never levied an ad valorem tax and does not anticipate needing to do so in connection with repaying the Certificates. The City expects that it will be able to pay all debt service on the Certificates from a combination of available sales tax revenues and net revenues of the System.

Redemption Provisions of the Certificates

Optional Redemption: The Issuer reserves the right to redeem the Certificates maturing on and after February 1, 2028 on February 1, 2027, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (and, if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar), at the redemption price of par plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption: The Certificates stated to mature on February 1, 2030, February 1, 2032, February 1, 2034, 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 to Mature on February 1, 2030		Term Certificates to Mature on February 1, 2032		Term Certificates To Mature on February 1, 2034	
Year	Principal Amount	Year	Principal Amount	Year	Principal Amount
2029	\$ 120,000	2031	\$125,000	2033	\$140,000
2030*	125,000	2032*	135,000	2034*	145,000

Term Certificates to Mature on February 1, 2036		Term Certificates to Mature on February 1, 2038	
Year	Principal Amount	Year	Principal Amount
2035	\$150,000	2037	\$160,000
2036*	155,000	2038*	170,000

* Stated Maturity.

The principal amount of the Term Certificates required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the City, by the principal amount of any such Term Certificates which, prior to the date of the mailing of notice of such mandatory redemption, (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (iii) shall have been redeemed pursuant to the optional redemption provisions described in the preceding paragraph and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption: Not less than thirty (30) days prior to a redemption date for the Certificates, the City shall cause a notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owners of each Bond 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. ANY NOTICE OF REDEMPTION SO MAILED TO THE REGISTERED OWNERS WILL BE DEEMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE OF THE REGISTERED OWNERS FAILED TO RECEIVE SUCH NOTICE. 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 any other condition to redemption satisfied, all as provided above, the Certificates or portion thereof which are to be 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.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Certificates and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

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 Certificates 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.)

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: (i) finance the construction and equipping of certain public improvements necessary to accommodate the construction of a mixed-use commercial center, including a new 65,000 square foot HEB grocery store and commercial space located near the intersection of U.S. Highway 180 and Lakeshore Drive in the City, which public improvements generally consist of improvements to the City's waterworks and sewer system, public drainage improvements, and street improvements; (ii) provide additional funds to acquire an install fiber optic cable in various locations in the City in order to connect, and provide improved communication between, City Hall and various City facilities such as public safety facilities, water and wastewater facilities; (iii) pay all or a portion for the legal, fiscal, engineering and other professional fees in connection with the Projects; and (iv) pay the costs of issuance related thereto. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Sources and Uses

Sources	The Certificates
Par Amount of the Certificates	\$ 2,325,000.00
Accrued Interest on the Certificates	9,524.72
Reoffering Premium	<u>116,036.25</u>
Total Sources of Funds	<u>\$ 2,450,560.97</u>
Uses	
Project Fund Deposit	\$ 2,350,000.00
Purchaser's Discount	30,806.25
Certificate Fund Deposit	9,524.72
Costs of Issuance	<u>60,230.00</u>
Total Uses	<u>\$ 2,450,560.97</u>

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 related 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 related series of Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the related 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 the payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Defeasance Securities, certified by an independent public accounting firm of national reputation 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, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution

permitted by applicable law) for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that "Defeasance 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 are rated as to investment quality by a national recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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

Upon making such deposit in the manner described, such Certificates shall no longer be deemed outstanding obligations payable from ad valorem taxes levied by the City, but will be payable only from the funds and Defeasance Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. Provided, however, the City has reserved 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.

HOLDERS OF THE CERTIFICATES SHOULD BE AWARE THAT THE DEPOSIT BY THE CITY OF MONIES OR DEFEASANCE SECURITIES WITH THE PAYING AGENT/REGISTRAR OR OTHER AUTHORIZED ENTITY AND THE RELEASE OF THE ORDINANCE (A "DEFEASANCE") FOR FEDERAL INCOME TAX PURPOSES COULD RESULT IN THE RECOGNITION BY THE HOLDER OF TAXABLE INCOME (OR LOSS), WITHOUT ANY CORRESPONDING RECEIPT OF MONIES BY THE HOLDER. SEE "TAX MATTERS – Certain U.S. Federal Income Tax Consequences to U.S. Holders - Defeasance of the Certificates."

Default and Remedies

The Ordinance establishes specific events of default with respect to the Certificates. If the City (i) defaults in the payment of the principal, premium, if any, or interest on the Certificates, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the failure to perform which materially, adversely affects the rights of the holders including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for 30 days after the City has received written notice of such defaults, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought 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 remedy 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. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. 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.

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151- 160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Ordinance provides that Bondholders 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.

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 either series of 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 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 registered owner entitled to receive the interest payable on a Certificate on any interest payment date means the fifteenth (15th) 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 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 (1) to issue, transfer, or exchange any Certificate called for redemption, in whole or in part during a period beginning at the opening of business fifteen (15) days before the day of the first mailing of a notice of redemption of Certificates hereunder and ending at the close of business on the day of such mailing or (2) thereafter to transfer or exchange in whole or in part any Certificate so selected for redemption; provided, however, such limitation is not applicable to the transfer or exchange of the unredeemed balance of an Certificate called for redemption 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.

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 Initial 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 each series of 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 Standard & Poor’s 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 Purchasers believe to be reliable, but none of the City, the Financial Advisor, or the Purchasers 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

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) interest-bearing banking deposits, other than those described by clause (7), if (A) the funds invested in the banking deposits are invested through (i) a broker with a main office or branch office in this State that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution as described in clause (8)(A), above, arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state

or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) 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; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

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

Investment Policies

Under Texas law, the 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 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 (a) is dependent on an analysis of the makeup of the City's entire portfolio, (b) requires an interpretation of subjective investment standards, or (c) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority) 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 December 31, 2017, the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Certificates of Deposit	\$ 215,563	7.31%
TexPool	348,868	11.83%
TexStar	2,384,923	80.86%
Total	<u>\$ 2,949,354</u>	<u>100.00%</u>

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

The Issuer has never levied an ad valorem tax and does not anticipate doing so in order to repay the Certificates, though such a pledge has been made to secure repayment of the debt evidenced by the Certificates. The City anticipates repayment of the Certificates will be made from the net revenues of its combined utility systems and from available sales tax revenues. See Appendix A under Table 6 for information regarding the City's sales tax revenues and Tables 9 through 12 for information regarding the City's combined utility system.

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 Parker County 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 Parker 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 taxroll 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 windpowered energy devices; most individually owned automobiles; an exemption from \$5,000 to a maximum of \$12,000 for real or personal 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.

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 so long as (i) the taxpayer died in a year he or she qualified for the exemption, (ii) the surviving spouse is 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. 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 City has not implemented this "tax freeze" nor received a valid petition requesting that an election be held concerning this matter.

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 role 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 property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value for the preceding tax year, plus (b) the appraised value of the property for the preceding tax year 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 role.

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.
2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$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. The Issuer has not granted the additional exemption.

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.

With respect to a disabled veteran who receives a 100% disability compensation from the United States Department of Veterans Affairs or its successor due to a service-connected disability and a rating of 100% disabled or of individual un-employability,

State law exempts from taxation the total appraised value (100%) of the veteran's residence homestead. Furthermore, following the approval by the voters at a November 8, 2011 statewide election, effective January 1, 2012, 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.

Effective January 1, 2018, a partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization either at no cost or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50 percent of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made.

Also effective January 1, 2018, the surviving spouses of police officers, firefighters, jailers, and other specified first responders who are killed or fatally injured in the line of duty are entitled to an exemption from taxation of the total appraised value of the surviving spouse's residence homestead.

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, 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.

Tax Investing Financing/Tax Abatement/Economic Development Program

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 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 a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

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 following summaries are provided for a general understanding of some of the City's current 380 agreements, and are in no way intended to be comprehensive. The full text of these agreements can be made available upon request.

Under its 380 agreement with HEB, the City is obligated to pay HEB: (1) three million five hundred and thirty four thousand dollars (\$3,534,000) as reimbursement for certain eligible expenses related to the design, construction, permitting and testing of certain public improvement, and (2) as reimbursement, the amount paid to acquire a 0.648-acre tract of land located along U.S. Highway No. 180.

Under its 380 agreement with Nextlink, the City is obligated to design, engineer, and construct a fiber optic network in certain sectors of the City. In consideration for Nextlink relocating and maintaining its corporate office in the City, the City has agreed to rebate all sales tax revenues received by the City from the revenues collected by Nextlink at its corporate office. The sales tax revenues include only the revenues derived from the City's 1.5% municipal sales tax, and shall only be rebated for taxable services provided outside of the City. The estimated total rebate per annum rebated to the Nextlink would be approximately \$110,000. The City did not rebate any sales tax for the year ended September 30, 2017 to Nextlink.

Under its 380 Agreement with Hudson Oaks, Creekside, Ltd., the City is obligated to rebate certain "payments in lieu of taxes" ("PILOT Payments"), stipulated by a development agreement, for a period of five years. The PILOT Payments are related to the value of commercial property in the development.

The City entered into an economic development agreement dated November 14, 2016, with Hiller LLC, to reimburse the cost of developing a commercial retail building. The agreement requires the City to rebate to the Hiller LLC 50% of the City's sales tax collected from the issuance of the certificate of occupancy for a period of four (4) years until the developed has been reimbursed the total sum \$46,137, whichever occurs first. The City did not rebate any sales tax for the year ended September 30, 2017 to Hiller LLC.

The Certificates are being issued to finance a portion of the City's obligations imposed under its 380 agreements with HEB and Nextlink.

Public Improvement District

On November 20, 2014, the City Council accepted a petition for the creation of the Hudson Oaks Public Improvement District #1 (the "PID"). Following a public hearing, a resolution was approved, authorizing the PID's creation for the purpose of financing the design, acquisition, and construction of public improvement projects necessary for the development of approximately 46 acres of real property located within the City. These public improvements include, but are not limited to, onsite water and wastewater system improvements, offsite water and sewer system improvements, storm sewer and drainage improvements, roadway improvements, off-street parking facilities, right-of-way acquisition, landscaping, and other improvement projects, including payment of the expenses incurred in the establishment, administration and operation of the District (the "Authorized Improvements"). The estimated cost to design, acquire, and construct the Authorized Improvements is \$3,400,000. The City is required to levy an assessment on each parcel within the PID to pay the costs of the Authorized Improvements.

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 role.

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%) of the amount of delinquent tax, penalty, and interest collected 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 or discounts.

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.

TAX RATE LIMITATIONS

The City operates as a Type A municipality under the Constitution and laws of the State of Texas. Article XI, Section 4 of the Constitution of the State provides that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$1.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$1.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that 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 \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection.

Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the Issuer, or as soon thereafter as practicable, 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 Tax Code

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 the effective tax rate until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the 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 Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

The 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 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 sales tax of 1/2 of 1%, for property tax reduction.

TAX MATTERS

THE FOLLOWING DISCUSSION, WHICH WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE SALE OF THE CERTIFICATES, IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN.

General

The following discussion is a summary of certain expected material federal income tax consequences of the purchase, ownership and disposition of the Certificates and is based on the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated thereunder, published rulings and pronouncements of the Internal Revenue Service ("IRS") and court decisions currently in effect. There can be no assurance that the IRS will not take a contrary view, and no ruling from the IRS, has been, or is expected to be, sought on the issues discussed herein. Any subsequent changes or interpretations may apply retroactively and could affect the opinion and summary of federal income tax consequences discussed herein.

The following discussion is not a complete analysis or description of all potential U.S. federal tax considerations that may be relevant to, or of the actual tax effect that any of the matters described herein will have on, particular holders of the Certificates and does not address U.S. federal gift or estate tax or the alternative minimum tax, state, local or other tax consequences. This summary does not address special classes of taxpayers (such as partnerships, or other pass-thru entities treated as a partnerships for U.S. federal income tax purposes, S corporations, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, grantor trusts, former citizens of the U.S., broker-dealers, traders in securities and tax-exempt organizations, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be subject to the branch profits tax or personal holding company provisions of the Code or taxpayers qualifying for the health insurance assistance credit) that are subject to special treatment under U.S. federal income tax laws, or persons that hold Certificates as a hedge against, or that are hedged against, currency risk or that are part of hedge, straddle, conversion or other integrated transaction, or persons whose functional currency is not the U.S. dollar". This summary is further limited to investors who will hold the Certificates as "capital assets" (generally, property held for investment) within the meaning of Section 1221 of the Code. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

As used herein, the term "U.S. Holder" means a beneficial owner of a Certificate who or which is: (i) an individual citizen or resident of the United States, (ii) a corporation or partnership created or organized under the laws of the United States or any political subdivision thereof or therein, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (a) a court within the U.S. is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust validly elects to be treated as a U.S. person for U.S. federal income tax purposes. As used herein, the term "Non-U.S. Holder" means a beneficial owner of a Certificate that is not a U.S. Holder.

THIS SUMMARY IS INCLUDED HEREIN FOR GENERAL INFORMATION ONLY AND DOES NOT DISCUSS ALL ASPECTS OF THE U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF CERTIFICATES IN LIGHT OF THE HOLDER'S PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. PROSPECTIVE HOLDERS OF THE CERTIFICATES SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES BEFORE DETERMINING WHETHER TO PURCHASE CERTIFICATES.

THIS DISCUSSION, WHICH WAS WRITTEN TO SUPPORT THE PROMOTION OF MARKETING OF THE SALE OF THE CERTIFICATES, IS NOT INTENDED, OR WRITTEN TO BE USED BY ANY TAXPAYER, TO AVOID PENALTIES THAT MIGHT BE IMPOSED ON THE TAXPAYER IN CONNECTION WITH THE MATTERS DISCUSSED THEREIN.

INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX IMPLICATIONS OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF THE CERTIFICATE UNDER APPLICABLE STATE OR LOCAL LAWS, OR ANY OTHER TAX CONSEQUENCE. FOREIGN INVESTORS SHOULD ALSO CONSULT THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES UNIQUE TO NON-U.S. HOLDERS.

Certain U.S. Federal Income Tax Consequences to U.S. Holders

Periodic Interest Payments and Original Issue Discount. The Certificates are not obligations described in Section 103(a) of the Code. Accordingly, the stated interest paid on the Certificates or original issue discount, if any, accruing on the Certificates will be includable in "gross income" within the meaning of Section 61 of the Code of each owner thereof and be subject to federal income taxation when received or accrued, depending upon the tax accounting method applicable to such owner.

Disposition of Certificates. An owner will recognize gain or loss on the redemption, sale, exchange or other disposition of a Certificate equal to the difference between the redemption or sale price (exclusive of any amount paid for accrued interest) and the owner's tax basis in the Certificates. Generally, a U.S. Holder's tax basis in the Certificates will be the owner's initial cost, increased by income reported by such U.S. Holder, including original issue discount and market discount income, and reduced, but not below zero, by any amortized premium. Any gain or loss generally will be a capital gain or loss and either will be long-term or short-term depending on whether the Certificates has been held for more than one year.

Defeatance of the Certificates. Defeatance of any Certificate may result in a reissuance thereof, for U.S. federal income tax purposes, in which event a U.S. Holder will recognize taxable gain or loss as described above.

Other Tax Consequences. Certain individuals, estates or trusts may be subject to a 3.8% surtax on all or a portion of the taxable interest that is paid on the Certificates. PROSPECTIVE PURCHASERS OF THE CERTIFICATES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE FOREGOING MATTERS.

Certain U.S. Federal Income Tax Consequences to Non-U.S. Holders

A Non-U.S. Holder that is not subject to U.S. federal income tax as a result of any direct or indirect connection to the U.S. in addition to its ownership of a Certificate, will not be subject to U.S. federal income or withholding tax in respect of a Certificate, provided that such Non-U.S. Holder complies, to the extent necessary, with identification requirements including delivery of a signed statement under penalties of perjury, certifying that such Non-U.S. Holder is not a U.S. person and providing the name and address of such Non-U.S. Holder. Absent such exemption, payments of interest, including any amounts paid or accrued in respect of accrued original issue discount, may be subject to withholding taxes, subject to reduction under any applicable tax treaty. Non-U.S. Holders are urged to consult their own tax advisors regarding the ownership, sale or other disposition of a Certificate.

The foregoing rules will not apply to exempt a U.S. shareholder of a controlled foreign corporation from taxation on the U.S. shareholder's allocable portion of the interest income received by the controlled foreign corporation.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Certificates will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and Beneficial Owners of the 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 (the "MSRB") through its Electronic Municipal Market Access (EMMA) system, where it will be available to the general public, free of charge, at www.emma.msrb.org.

Annual Reports

Under State law, including, but not limited to Chapter 103, as amended, Texas 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 holder or other member of the public within a reasonable time of request to City Secretary, 210 Hudson Oaks Drive, Hudson Oaks, Texas 76087, and upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in Table 1 hereof, Tables 1 through 12 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 financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available.

Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX 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 March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change with the MSRB through EMMA.

Notice of Occurrence of Certain Event, Whether Or Not Material

The City will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Certificates, without regard to whether such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) unscheduled draws on debt service reserves reflecting financial difficulties; (3) unscheduled draws on credit enhancements reflecting financial difficulties; (4) substitution of credit or liquidity providers, or their failure to perform; (5) adverse tax opinions or 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 events affecting the tax status of the Certificates; (6) tender offers; (7) defeasances; (8) rating changes; and (9) bankruptcy, insolvency, receivership or similar event of an obligated person. (Neither the Certificates nor the Ordinance make any provision for credit enhancement, liquidity enhancement, or a debt service reserve with respect to the Certificates.)

Notice of Occurrence of Certain Events, If Material

The City also will notify the MSRB through EMMA (in an electronic format as prescribed by the MSRB) within ten business days following the occurrence of any of the following events with respect to the Certificates, if such event is material within the meaning of the federal securities laws: (1) non-payment related defaults; (2) modifications to rights of holders; (3) redemption calls; (4) release, substitution, or sale of property securing repayment of the Certificates; (5) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (6) appointment of a successor or additional trustee or the change of name of a trustee.

Notice of Failure to Timely File

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the 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 material 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 material 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 continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or registered 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 from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any

change in the type of financial information and operating data so provided. 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 a purchaser from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Initial Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the related series 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 transcripts 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, based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel of like effect and to the effect that the interest on the Certificates will be includable in gross income for federal income tax purposes. 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, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed the information under the captions "THE CERTIFICATES," (except under the subcaption "Payment Record", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX RATE LIMITATIONS," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "LEGAL MATTERS—Legal Opinions and No-Litigation Certificate," "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 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.

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 – Ratings" 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.

Ratings

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 Ordinance contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinance. 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 BOK Financial Securities, Inc (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on page 2 of this Official Statement at a price of par, plus an original reoffering premium of \$116,036.25, less a discount retained by the Initial Purchaser of \$30,806.25, and 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 Certificates after their sale by the City to the Initial 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 Initial Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificate, the Initial 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 this 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 the Certificates and the acceptance of the best respective bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, this 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.

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, the Rule.

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

This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

CITY OF HUDSON OAKS, TEXAS

/s/ Pat Deen
Mayor
City of Hudson Oaks, Texas

ATTEST:

/s/ Shelley Scazzero
City Secretary
City of Hudson Oaks, Texas

APPENDIX A

**FINANCIAL INFORMATION RELATING TO
THE CITY OF HUDSON OAKS, 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) ^(a)	\$ 406,199,631
Loss:	
General Homestead Cap.....	\$ 6,162,258
Agriculture Productivity.....	<u>8,459,620</u>
Total Loss.....	\$ 14,621,878
2017 Assessed Value of Taxable Property.....	\$ 391,577,753
Deductions:	
General Disabled Veteran.....	\$ 4,432,794
100% Homesite.....	-
General Exemptions.....	<u>11,263,540</u>
Total Exemptions	\$ 15,696,334
2017 Certified Net Taxable Assessed Valuation.....	<u><u>\$ 375,881,419</u></u>

^(a) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE PROPERTY TAX CODE" in the Official Statement for a description of the Issuer's taxation procedures.

Source: Parker County Appraisal District

GENERAL OBLIGATION BONDED DEBT

General Obligation Debt Principal Outstanding (As of March, 2018)

Combination Tax and Revenue Certificates of Obligation, Series 2007	\$ 1,105,000
Combination Tax and Revenue Certificates of Obligation, Series 2010	2,380,000
General Obligation Refunding Bonds, Series 2010	815,000
Certificates of Obligation, Series 2012	2,310,000
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2014	1,085,000
Combination Tax & Revenue Certificates of Obligation, Series 2016A	4,415,000
Combination Tax & Revenue Certificates of Obligation, Taxable Series 2016B	1,455,000
Combination Tax & Revenue Certificates of Obligation, Taxable Series 2018 (the "Certificates")	<u>2,325,000</u>
Total Gross General Obligation Debt	<u><u>\$ 15,890,000</u></u>

Less: Self Supporting Debt

Combination Tax and Revenue Certificates of Obligation, Series 2007 (100.00% Sales Tax)	1,105,000
Combination Tax and Revenue Certificates of Obligation, Series 2010 (100.00% Utility)	2,380,000
General Obligation Refunding Bonds, Series 2010 (57.10% Utility System; 42.9% Sales Tax)	815,000
Certificates of Obligation, Series 2012 (100% Utility System)	2,310,000
Combination Tax & Limited Pledge Revenue Certificates of Obligation, Series 2014 (100% Utility System)	1,085,000
Combination Tax & Revenue Certificates of Obligation, Series 2016A (100% Utility System)	4,415,000
Combination Tax & Revenue Certificates of Obligation, Series 2016B (100% Utility System)	1,455,000
Combination Tax & Revenue Certificates of Obligation, Series 2016B (the "Certificates") (86% PID and 14% Utility System)	<u>2,325,000</u>
Total Self-Supporting Debt	<u><u>\$ 15,890,000</u></u>

Total Net General Obligation Debt Outstanding	<u><u>\$ -</u></u>
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2017 Certified Net Taxable Assessed Valuation	\$ 375,881,419
Ratio of Total Gross General Obligation Debt Principal to 2017 Certified Net Taxable Assessed Valuation	4.23%
Ratio of Net General Obligation Debt to 2017 Certified Net Taxable Assessed Valuation	0.00%

Population: 1990 - 711; 2000 - 1,637; 2010 - 1,662; est. 2018 - 2,345
Per Capita 2017 Certified Net Taxable Assessed Valuation - \$ 160,291
Per Capita Gross General Obligation Debt Principal - \$6,776

^(a) See "AD VALOREM TAX PROCEDURES" and "CITY APPLICATION OF THE PROPERTY TAX CODE" in the Official Statement for a description of the Issuer's taxation procedures.

DEBT OBLIGATIONS - CAPITAL LEASES AND LOANS PAYABLE

TABLE 2

Capital Leases

Governmental Activities:

On October 25, 2015, the general fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$13,495 beginning October 2016. The interest rate is 2.6%. The outstanding balance as of September 30, 2017 was \$25,944.

On April 25, 2017, the general fund acquired computers for police vehicles with a capital lease. The lease requires monthly payments of \$565 beginning June 2017. The interest rate is 5%. The outstanding balance as of September 30, 2017 was \$27,304.

Business-type Activities:

On September 8, 2017, the deer creek fund acquired a vehicle with a capital lease. The lease requires three annual payments of \$7,780 beginning September 2018. The interest rate is 2.8%. The outstanding balance as of September 30, 2017 was \$22,075.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2017:

	Governmental Activities	Business-type Activities
Assets:		
Automobiles	\$ 69,352	\$ 29,196
Equipment	29,116	-
Less: Accumulated Depreciation	<u>(47,505)</u>	<u>(487)</u>
Total	<u>\$ 50,963</u>	<u>\$ 28,709</u>

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments as of September 30, 2017:

	Governmental Activities	Business-type Activities
2018	\$ 20,274	\$ 7,780
2019	20,274	\$ 7,780
2020	6,779	\$ 7,762
2021	6,779	\$ -
2022	<u>4,520</u>	<u>-</u>
Total Minimum Lease Payments	\$ 58,626	\$ 23,322
Amount Representing Interest	<u>(5,378)</u>	<u>(1,247)</u>
Present Value of future minimum payments	<u>\$ 53,248</u>	<u>\$ 22,075</u>

Source: The Issuer's audited financial statements for the fiscal year ending September 30, 2017.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending Sept. 30	Current Total Outstanding Debt ^(a)	The Certificates			Combined Debt Service ^(a)	Less: Self- Supporting Debt	Total Net Debt Service
		Principal	Interest	Total			
2018	\$ 1,282,893				\$ 1,282,893	\$ 1,282,893	\$ -
2019	1,283,845	\$ 45,000	\$ 137,824	\$ 182,824	1,466,669	1,466,669	-
2020	1,283,018	75,000	96,725	171,725	1,454,743	1,454,743	-
2021	1,240,470	80,000	92,850	172,850	1,413,320	1,413,320	-
2022	1,235,665	85,000	88,725	173,725	1,409,390	1,409,390	-
2023	1,231,155	90,000	84,350	174,350	1,405,505	1,405,505	-
2024	1,126,218	95,000	79,725	174,725	1,300,943	1,300,943	-
2025	944,675	100,000	74,850	174,850	1,119,525	1,119,525	-
2026	945,975	105,000	69,725	174,725	1,120,700	1,120,700	-
2027	946,670	110,000	64,350	174,350	1,121,020	1,121,020	-
2028	806,298	115,000	59,300	174,300	980,598	980,598	-
2029	801,723	120,000	54,600	174,600	976,323	976,323	-
2030	806,473	125,000	49,700	174,700	981,173	981,173	-
2031	804,823	125,000	44,700	169,700	974,523	974,523	-
2032	797,191	135,000	39,500	174,500	971,691	971,691	-
2033	608,729	140,000	34,000	174,000	782,729	782,729	-
2034	605,491	145,000	28,300	173,300	778,791	778,791	-
2035	611,594	150,000	22,400	172,400	783,994	783,994	-
2036	421,445	155,000	16,300	171,300	592,745	592,745	-
2037	-	160,000	10,000	170,000	170,000	170,000	-
2038	-	170,000	3,400	173,400	173,400	173,400	-
Total	<u>\$ 17,784,348</u>	<u>\$ 2,325,000</u>	<u>\$ 1,151,324</u>	<u>\$ 3,476,324</u>	<u>\$ 21,260,671</u>	<u>\$ 21,260,671</u>	<u>\$ -</u>

^(a) Includes self-supporting debt

TAX ADEQUACY (Includes Self-Supporting Debt)

2017 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$375,881,419
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2019)	\$ 1,466,669 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.39816 *

* Includes the Certificates.

TAX ADEQUACY (Excludes Self-Supporting Debt)

2017 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$375,881,419
Maximum Annual Debt Service Requirements	\$ - *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ - *

* Includes the Certificates.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of March 1, 2018)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding ^(a)	The 2018 Certificates	Total		
2018	\$ 830,000		\$ 830,000	\$ 15,290,000	5.15%
2019	860,000	\$ 45,000	905,000	14,385,000	10.76%
2020	890,000	75,000	965,000	13,420,000	16.75%
2021	880,000	80,000	960,000	12,460,000	22.70%
2022	905,000	85,000	990,000	11,470,000	28.85%
2023	930,000	90,000	1,020,000	10,450,000	35.17%
2024	855,000	95,000	950,000	9,500,000	41.07%
2025	700,000	100,000	800,000	8,700,000	46.03%
2026	725,000	105,000	830,000	7,870,000	51.18%
2027	750,000	110,000	860,000	7,010,000	56.51%
2028	635,000	115,000	750,000	6,260,000	61.17%
2029	650,000	120,000	770,000	5,490,000	65.94%
2030	675,000	125,000	800,000	4,690,000	70.91%
2031	695,000	125,000	820,000	3,870,000	75.99%
2032	710,000	135,000	845,000	3,025,000	81.23%
2033	545,000	140,000	685,000	2,340,000	85.48%
2034	560,000	145,000	705,000	1,635,000	89.86%
2035	585,000	150,000	735,000	900,000	94.42%
2036	415,000	155,000	570,000	330,000	97.95%
2037	-	160,000	160,000	170,000	98.95%
2038	-	170,000	170,000	-	100.00%
Total	\$ 13,795,000	\$ 2,325,000	\$ 16,120,000		

^(a) Includes self-supporting debt.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2009-2018

TABLE 3

Year	Net Taxable Assessed Valuation	Percent
2008-09	\$ 192,554,170	
2009-10	234,086,390	21.57%
2010-11	240,094,370	2.57%
2011-12	252,116,110	5.01%
2012-13	257,584,790	2.17%
2013-14	287,927,110	11.78%
2014-15	282,133,660	-2.01%
2015-16	314,826,402	11.59%
2016-17	340,594,031	8.18%
2017-18	375,881,419	10.36%

Source: Parker County Appraisal District.

PRINCIPAL TAXPAYERS

TABLE 4

<u>Name</u>	<u>Type of Business/Property</u>	<u>2017 Net Taxable Assessed Valuation</u>	<u>% of Total 2017 Assessed Valuation</u>
Jerry Durant	Dealership	\$ 19,487,870	5.18%
Wal-Mart Real Estate	Retail	17,924,730	4.77%
Gilchrist Charles	Dealership	13,282,429	3.53%
Southwest Ford	Dealership	9,870,590	2.63%
Durant Grantor Trust A&B	Warranty Company	8,701,120	2.31%
Jerry's Warranty	Warranty Company	6,174,750	1.64%
Kingdom Perspectives	Amusement Park	5,923,930	1.58%
FPS RE Fort Worth	Real Estate Development	5,691,750	1.51%
Jerry's Hyundai	Dealership	5,171,430	1.38%
Hudson Oaks Theatre	Theatre	4,154,830	1.11%
		Total	
		<u>\$ 96,383,429</u>	<u>25.64%</u>

Source: Parker County Appraisal District

TAX RATE DISTRIBUTION

TABLE 5

The City does not currently levy an ad valorem tax or plan to levy an ad valorem tax to pay the debt service requirements on the Certificates and the City's other outstanding debt. The City expects that the Certificates will be 100% self-supporting. In the event the Utility System revenues and the sales tax revenues are insufficient to pay the debt service on the City's outstanding debt, the City will be obligated to levy and collect interest and sinking fund taxes to provide for the required debt service payments.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 6

The City has adopted the provisions of Municipal Sales and use Tax Act, Texas Tax Code, which grants the City the poer to impose and levy a 1.00% Local Sales and Use Tax within the City. The proceeds are credited to the Genral Fund and are not pledged to the payment of the Certificates. In addition, some political subdivisions may impose, with voter approval, certain other sales and use taxes for various authorized purposes, including property tax relief and economic dvelopment (not to exceed an aggregate tax rate of 8.25%, including the 6.25% sales tax levied by the State of Texas). The City levies an additional sales and use tax of 1/2 of 1% for property tax reduction.

<u>Calendar Year</u>	<u>Rate</u>	<u>Total Collected</u>
2009	1.50%	\$ 1,346,564
2010	1.50%	1,351,271
2011	1.50%	1,360,435
2012	1.50%	1,448,673
2013	1.50%	1,533,395
2014	1.50%	1,614,872
2015	1.50%	1,698,638
2016	1.50%	1,927,550
2017	1.50%	1,891,474
2018 ⁽¹⁾	1.50%	182,098

⁽¹⁾ As of February, 2018.

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

OVERLAPPING DEBT DATA AND INFORMATION

(As of March, 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 were 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.

<u>Taxing Body</u>	<u>Gross Debt</u>	<u>%</u>	<u>Amount</u>
	<u>Principal</u>	<u>Overlapping</u>	<u>Overlapping</u>
Weatherford Independent School District	\$ 126,434,074	7.59%	\$ 9,596,346
Parker County	124,615,000	2.86%	3,563,989
Parker County Hospital District	-	2.86%	-
Parker County Junior College District	<u>5,035,000</u>	2.86%	<u>144,001</u>
Total Gross Overlapping Debt	\$ 256,084,074		\$ 13,304,336
Hudson Oaks, City of			\$ 15,890,000 ⁽¹⁾
Total Gross Direct and Overlapping			\$ 29,194,336 ⁽¹⁾
Ratio of Gross Direct and Overlapping Debt to 2017 Certified Net Taxable Assessed Valuation			7.77%
Per Capita Direct and Overlapping Debt			\$ 12,449.61

Note: The above figures show Gross General Obligation Debt for Hudson Oaks, Texas. The Issuer's Net General Obligation Debt is \$0. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$ 13,304,336
Ratio of Direct and Overlapping Debt to 2017 Certified Net Taxable Assessed Valuation	3.54%
Per Capita Direct and Overlapping Debt	\$ 5,673.49

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

⁽¹⁾ Includes the Certificates.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	% of Actual	2017 Tax Rate
Weatherford Independent School District	\$ 3,921,161,536	100%	\$ 1.45400
Parker County	10,741,094,084	100%	0.31172
Parker County Hospital District	10,699,563,454	100%	0.11152
Parker County Junior College District	10,694,002,821	100%	0.11948

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

AUTHORIZED BUT UNISSUED DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued To-Date	Unissued
City of Hudson Oaks	None				
Weatherford Independent School District	None				
Parker County	11/8/16	Road	\$ 76,200,000	\$ 40,000,000	\$ 36,200,000
Parker County Hospital District	None				
Parker County Junior College District	None				

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

**GENERAL FUND COMBINED STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCES**

TABLE 7

	Fiscal Year Ended September 30				
	2017	2016	2015	2014	2013
Fund Balance - Beginning of Year	\$ 1,625,416	\$ 1,404,866	\$ 1,116,879	\$ 1,035,783	\$ 1,043,098
Revenues	\$ 2,500,821	\$ 2,683,221	\$ 2,413,533	2,361,277	\$ 2,189,633
Expenditures	2,087,659	2,274,478	2,215,816	2,142,755	2,205,826
Excess (Deficit) of Revenues Over (Under) Expenditures	\$ 413,162	\$ 408,743	\$ 197,717	\$ 218,522	\$ (16,193)
Other Financing Sources (Uses):					
Transfers In - Payment in Lieu of Taxes	\$ -	\$ 68,750	\$ 218,128	\$ 119,176	\$ -
Proceeds from Notes Payable	-	-	185,000	34,220	-
Capital Lease Issued	29,116	38,437	-	-	\$ (197,372)
Operating Transfers In (Out)	(694,020)	(295,380)	(312,858)	(290,822)	206,250
Total Other Financing Sources (Uses)	\$ (664,904)	\$ (188,193)	\$ 90,270	\$ (137,426)	\$ 8,878
Net Change in Fund Balance	\$ (251,742)	\$ 220,550	\$ 287,987	\$ 81,096	\$ (7,315)
Fund Balance - End of Year	\$ 1,373,674	\$ 1,625,416	\$ 1,404,866	\$ 1,116,879	\$ 1,035,783

Source: The Issuer's Comprehensive Annual Financial Reports.

PLAN DESCRIPTION

The City participates as one of 860 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. 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 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 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 for 2016 and 2015 were the same and were as follows:

Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

EMPLOYEES COVERED BY BENEFIT

Inactive employees or beneficiaries currently	9
Inactive employees entitled	17
Active employees	<u>23</u>
	49

CONTRIBUTIONS

The Contribution rate 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 were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.89% and 13.39% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$192,297, 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

Source: *The Issuer's Annual Financial Report for the Fiscal Year Ending September 30, 2017.*

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS (Cont'd)

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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. Rates are multiplied by a factor of 100%, which adds an additional layer of conservatism. 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 Tables is used, with slight adjustments.

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, first used in the December 31, 2010 valuation. 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. No additional changes were made for the 2014 valuation.

The long-term expected rate of return on pension investments is 7.0%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core-Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

DISCOUNT RATE

The discount rate used to measure the Total Pension Liability was 6.75%. The projecting 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 Total Pension Liability.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS (Cont'd)

CHANGES IN THE NET PENSION LIABILITY

	Increase(Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	\$ 3,376,260	\$ 2,519,983	\$ 856,277
Changes for the Year			-
Service Cost	224,824	-	224,824
Interest	233,278	-	233,278
Change of benefit terms	-	-	-
Difference between expected and actual performance	(160,582)	-	(160,582)
Changes of assumptions	-	-	-
Contributions - employer	-	173,428	(173,428)
Contributions - employee	-	94,181	(94,181)
Net investment income	-	170,372	(170,372)
Benefit payments, including refunds of employee contributions	(65,411)	(65,411)	-
Administrative expense	-	(1,923)	1,923
Other changes	-	(103)	103
Net Changes	232,109	370,544	(138,435)
Balance at 12/31/2015	<u>\$ 3,608,369</u>	<u>\$ 2,890,527</u>	<u>\$ 717,842</u>

SENSITIVITY OF THE NET POSITION 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 Increase Discount Rate (7.75%)
City's net pension liability	\$ 1,474,288	\$ 717,842	\$ 123,654

PENSION PLAN FIDUCIARY NET POSITION

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

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS (Cont'd)

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF

For the year ended September 30, 2017, the city recognized pension expense of \$192,701.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 23,854	\$ 169,442
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings	105,343	-
Contributions subsequent to the measurement date	136,687	17,136
Total	<u>\$ 265,884</u>	<u>\$ 186,578</u>

\$136,687 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>9/30</u>	Net Deferred outflows (Inflows) of <u>resources</u>
2017	\$ (3,147)
2018	(3,149)
2019	(3,958)
2020	(26,913)
2021	(20,213)
Thereafter	-
	<u>\$ (57,380)</u>

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS (Cont'd)

OTHER POST EMPLOYMENT BENEFITS

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

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

Your City offers supplemental death to:	Plan year 2016	Plan year 2017
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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 programs to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The city's contributions to the TMRS SDBF for the years 2017, 2016 and 2015 were \$1,302, \$1,193, and \$1,086, respectively, which equaled the required contributions each year.

REVENUE BOND DEBT DATA**- NONE -**Source: *The Issuer's audited financial statements for the fiscal year ending September 30, 2017.***UTILITY PLANT IN SERVICE****TABLE 9***(As of September 30, 2017)*

Land	\$ 559,867
Construction in Progress	243,258
Buildings	46,413
Water Plant	4,091,352
Distribution System	4,975,768
Intangible Assets	787,886
Sewer System	3,799,622
Automobiles	151,888
Office Furniture and Equipment	<u>160,758</u>
Utility Plant in Service	\$ 14,816,812
Less: Accumulated Depreciation	<u>\$ (4,986,559)</u>
Net Utility Plant in Service	\$ 9,830,253

Source: *The Issuer's Comprehensive Annual Financial Report.***WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT****TABLE 10**

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, garbage, bad

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Revenues	2,043,562	2,037,546	2,017,257	1,867,682	1,831,783
Expenses	<u>1,371,394</u>	<u>1,309,481</u>	<u>1,048,758</u>	<u>1,039,659</u>	<u>1,177,493</u>
Net Revenue Available for Debt Service	<u>\$ 672,168</u>	<u>\$ 728,065</u>	<u>\$ 968,499</u>	<u>\$ 828,023</u>	<u>\$ 654,290</u>
Customer Count:					
Water	1143	1124	1123	1099	1063
Sewer	173	163	148	132	101

Source: *The Issuer's Annual Financial Reports.*

WATER SUPPLY

The City currently has 19 wells (1 is in the Trinity Aquifer and 18 are in the Paluxy Aquifer), a 250,000 gallon elevated storage tank, and 6 water plants with 11 ground storage tanks. Upon the sale and transfer of the Dyegard System, the City added 8 more wells (3 in the Trinity and 5 in the Paluxy), and 3 water plants with 6 ground storage tanks. The City also has a water purchase contract with the City of Weatherford, Texas. The City's administration believes that the City has enough water capacity to last until 2030 which would handle the expected build out of the City to a population of 8,000.

WATER USAGE

Fiscal Year Ending	Gallons Purchased or Pumped Into the System	Gallons of Water Sold to Customers	Percentage Billed/Pumped
9/30/2008	152,826,700	122,013,459	79.84%
9/30/2009	145,797,700	125,155,500	85.84%
9/30/2010	152,864,468	128,961,390	84.36%
9/30/2011	184,669,900	178,692,200	96.76%
9/30/2012	178,441,100	175,470,230	98.34%
9/30/2013	303,751,900	175,366,617	57.73%
9/30/2014	192,674,206	176,597,113	91.66%
9/30/2015	195,881,380	181,457,492	92.64%
9/30/2016	191,228,200	170,570,700	89.20%
9/30/2017	188,959,200	172,927,000	91.52%

WATER RATES

TABLE 11

[Based on Monthly Billing]

(Effective October 1, 2017)

Base Rate-Meter Charge (Inside and Outside City Limits)

.75"	\$39.00
1.0"	75
1.5"	110
2.0"	240
3.0"	290

Usage Charges- Consumption Residential Usage Charges		Usage Charges- Consumption Commercial Usage Charges	
Monthly Consumption	Monthly Rate	Monthly Consumption	Monthly Rate
0-5,000 gallons	\$3.76 per 1,000 gallons	0-15,000 gallons	\$4.82 per 1,000 gallons
5,001 - 10,000 gallons	\$4.34 per 1,000 gallons	15,001 - 35,000 gallons	\$6.34 per 1,000 gallons
10,001-30,000 gallons	\$5.55 per 1,000 gallons	35,001-65,000 gallons	\$7.45 per 1,000 gallons
30,000 gallons or above	\$6.64 per 1,000 gallons	65,000 gallons or above	\$8.76 per 1,000 gallons

SEWER RATES

TABLE 12

[Based on Monthly Billing]

Residential

\$18.00 base Rate + \$4.78 per 1,000 gallons based upon winter averaging

Commercial

\$18.00 Base Rate + \$11.40 per 1,000 gallons based upon winter averaging

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF HUDSON OAKS
AND PARKER COUNTY, TEXAS**

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CITY OF HUDSON OAKS, TEXAS

Hudson Oaks, Texas (the "City") is a political subdivision of the State of Texas, located in Parker County on Highway 180, just north of Interstate 20. The City is 27 miles west of downtown Fort Worth, Texas. The City is a Type A general law municipality and operates under an Administrator/Council form of government with a City Council comprised of the Mayor and five Councilmembers. Some of the services that the City provides are: public safety (police), highways and streets, water and sanitary sewer utilities, recycling, and general administrative services. The City's 2018 estimated population is 2,345. The City covers approximately 2.5 square miles.

The City is 20 miles west of downtown Fort Worth, which makes it an ideal location for people to live and commute. The City thrives on commercial development as a sales tax dependent City. Unemployment rates have dropped, while City and County sales tax receipts continue to increase.

The local economy is based between Weatherford, Texas and Fort Worth, Texas. With customers traveling into Hudson Oaks to shop. Approximately 70,000 vehicles a day travel through Hudson Oaks, which makes it an ideal place to do business. The local establishments provide outlets to meet the needs of area residents as well as a solid and growing retail base for the City. Sales tax collections are up 5% compared to the prior year.

New residential developments continue to grow; Red Eagle subdivision and a planned future mixed-use development, Creekside at Hudson Oaks.

PARKER COUNTY

Parker County, Texas (the "County") is located adjacent to the western boundary of Tarrant County. The County seat is the City of Weatherford, Texas. The County is traversed by Interstate 20 and U.S. Highways 80 and 180.

The County's economy is based on agribusiness, energy, and manufacturing. With its proximity to the Dallas-Fort Worth Metroplex, many residents commute to Fort Worth for employment. Agricultural products include: pecans, peanuts, peaches, horticulture, horses, hay, dairy, and cattle. Mineral production includes: stone, oil, clay, natural gas, gravel, and sand.

Labor Force Statistics ⁽¹⁾

	<u>2017⁽²⁾</u>	<u>2016⁽³⁾</u>	<u>2015⁽³⁾</u>	<u>2014⁽³⁾</u>	<u>2013⁽³⁾</u>
Civilian Labor Force	62,103	60,534	59,379	59,016	58,755
Total Employed	60,307	58,055	56,911	56,322	55,521
Total Unemployed	1,796	2,479	2,468	2,694	3,234
% Unemployment	2.9%	4.1%	4.2%	4.6%	5.5%
Texas Unemployment	3.7%	4.6%	4.5%	5.1%	6.2%

(1) Source: Texas Workforce Commission.

(2) As of December, 2017.

(3) Average Annual Statistics.

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APPENDIX C
FORM OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

*An opinion in substantially the following form will be delivered by
McCall, Parkhurst & Horton L.L.P., Bond Counsel,
upon the delivery of the Certificates, assuming no material changes in facts or law.*

April __, 2018

**CITY OF HUDSON OAKS, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, TAXABLE SERIES 2018
DATED AS OF MARCH 15, 2018
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,325,000**

AS BOND COUNSEL FOR THE CITY OF HUDSON OAKS, TEXAS (the "**City**") in connection with the issuance of the certificates of obligation described above (the "**Certificates**"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates until maturity or prior redemption at the rates and payable on the dates as stated in the text of the Certificates, and which are subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the ordinance authorizing the issuance of the Certificates (the "**Ordinance**"), and (ii) one of the executed Certificates (Certificate No. T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized, issued and delivered in accordance with law; that the Certificates constitute valid and legally binding general obligations of the City in accordance with their terms except as the enforceability thereof may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion; that the City has the legal authority to issue the Certificates and to repay the Certificates; that ad valorem taxes sufficient to provide for the payment of the principal of the Certificates, as such principal matures, have been levied and ordered to be levied against all taxable property in the City, and have been pledged for such payment, within the limits prescribed by law; and that "**Surplus Revenues**" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's Waterworks and Sewer System have been pledged to further secure the payment of the Certificates in the manner set forth in the Ordinance.

IT IS FURTHER OUR OPINION that the Certificates are not obligations described in section 103(a) of the Internal Revenue Code of 1986, as amended, and, therefore, interest on the



Certificates is includable in gross income for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Certificates.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further given, and are based on our knowledge of facts, as of the date hereof. We assume no duty or obligation to update or supplement our opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the inclusion in gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 City, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and we have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

APPENDIX D

FINANCIAL STATEMENTS 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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BASIC FINANCIAL STATEMENTS

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CITY OF HUDSON OAKS, TEXAS
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 741,700	\$ 1,012,510	\$ 1,754,210
Investments	3,914,642	88,463	4,003,105
Receivables (Net of allowances for uncollectibles)			
Accounts	-	345,501	345,501
Sales tax	319,649	-	319,649
Franchise taxes	78,493	-	78,493
Fines	137,055	-	137,055
Miscellaneous receivables	23,996	462,062	486,058
Prepaid items	21,434	8,875	30,309
Internal Balances	(372,686)	372,686	-
Restricted assets:			
Cash and cash equivalents	-	545,758	545,758
Capital assets (net of accumulated depreciation):			
Nondepreciable	5,991,993	803,125	6,795,118
Depreciable, net of accumulated depreciation	4,682,404	9,027,128	13,709,532
Total Assets	<u>15,538,680</u>	<u>12,666,108</u>	<u>28,204,788</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to Pensions	195,009	84,120	279,129
Total Deferred Outflow of Resources	<u>195,009</u>	<u>84,120</u>	<u>279,129</u>
LIABILITIES:			
Accounts Payable	256,161	135,460	391,621
Accrued payroll	14,279	6,361	20,640
Accrued interest payable	42,479	33,735	76,214
Noncurrent liabilities:			
Due within one year	597,900	446,991	1,044,891
Due in more than one year	7,969,820	6,116,999	14,086,819
Total Liabilities	<u>8,880,639</u>	<u>6,739,546</u>	<u>15,620,185</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflow Related to Pensions	130,325	56,253	186,578
Total Deferred Inflow of Resources	<u>130,325</u>	<u>56,253</u>	<u>186,578</u>
NET POSITION:			
Net Investments in Capital Assets	5,531,794	4,426,001	9,957,795
Restricted Net Position - Public Safety	16,488	-	16,488
Restricted Net Position - Debt Service	34,085	9,108	43,193
Restricted Net Position - Impact Fees	-	178,627	178,627
Restricted Net Position - Other	19,330	-	19,330
Unrestricted Net Position	1,121,028	1,340,693	2,461,721
Total Net Position	<u>\$ 6,722,725</u>	<u>\$ 5,954,429</u>	<u>\$ 12,677,154</u>

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

CITY OF HUDSON OAKS, TEXAS

Statement of Net Position

September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General government	\$ 673,893	\$ 47,284	\$ 70,000	\$ -
Public safety	1,324,595	72,744	-	-
Streets	262,374	-	-	-
Parks and facilities	71,223	-	-	125,000
Planning and development	144,939	278,502	-	-
Mayor and council	8,244	-	-	-
Interest and fiscal charges	277,803	-	-	-
Total governmental activities	<u>2,763,071</u>	<u>398,530</u>	<u>70,000</u>	<u>125,000</u>
Business-type activities:				
Hudson Oaks water	1,384,187	1,206,513	-	-
Wastewater	333,288	356,723	-	-
Dyegard water system	208,995	241,943	-	-
Deercreek management	119,280	233,093	-	-
Stormwater utility system	90,027	172,847	31,029	-
Total business-type activities	<u>2,135,777</u>	<u>2,211,119</u>	<u>31,029</u>	<u>-</u>
Total primary government	<u><u>4,898,848</u></u>	<u><u>2,609,649</u></u>	<u><u>101,029</u></u>	<u><u>125,000</u></u>

General Revenues:

Taxes:

Sales Taxes

Franchise Taxes

Investment Earnings

Other Revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position October 1

Net Position September 30

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position

<u>Primary Government</u>		
<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (556,609)	\$ -	\$ (556,609)
(1,251,851)	-	(1,251,851)
(262,374)	-	(262,374)
53,777	-	53,777
133,563	-	133,563
(8,244)	-	(8,244)
(277,803)	-	(277,803)
<u>(2,169,541)</u>	<u>-</u>	<u>(2,169,541)</u>
-	(177,674)	(177,674)
-	23,435	23,435
-	32,948	32,948
-	113,813	113,813
-	113,849	113,849
<u>-</u>	<u>106,371</u>	<u>106,371</u>
<u>(2,169,541)</u>	<u>106,371</u>	<u>(2,063,170)</u>
1,902,946	-	1,902,946
170,423	-	170,423
48,843	5,327	54,170
80,745	-	80,745
318,045	(318,045)	-
<u>2,521,002</u>	<u>(312,718)</u>	<u>2,208,284</u>
351,461	(206,347)	145,114
<u>6,371,264</u>	<u>6,160,776</u>	<u>12,532,040</u>
<u>\$ 6,722,725</u>	<u>\$ 5,954,429</u>	<u>\$ 12,677,154</u>

CITY OF HUDSON OAKS, TEXAS
Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	General Capital Projects Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Assets:					
Cash	\$ 522,114	\$ 145,922	\$ 34,085	\$ 31,290	\$ 733,411
Investments	796,890	3,117,752	-	-	3,914,642
Receivables					
Sales Tax	319,649	-	-	-	319,649
Franchise Tax	78,493	-	-	-	78,493
Fines and fees	137,055	-	-	-	137,055
Miscellaneous	278	-	-	23,718	23,996
Prepaid items	19,586	-	-	1,848	21,434
Due from other funds	88,534	114,000	-	-	202,534
	<u>1,962,599</u>	<u>3,377,674</u>	<u>34,085</u>	<u>56,856</u>	<u>5,431,214</u>
Total assets	<u>\$ 1,962,599</u>	<u>\$ 3,377,674</u>	<u>\$ 34,085</u>	<u>\$ 56,856</u>	<u>\$ 5,431,214</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	85,392	165,839	-	4,930	256,161
Accrued payroll	14,279	-	-	-	14,279
Due to Other Funds	114,000	420,384	-	40,837	575,221
	<u>213,671</u>	<u>586,223</u>	<u>-</u>	<u>45,767</u>	<u>845,661</u>
Total liabilities	<u>213,671</u>	<u>586,223</u>	<u>-</u>	<u>45,767</u>	<u>845,661</u>
Deferred inflows of resources:					
Deferred revenue	375,255	-	-	23,718	398,973
	<u>375,255</u>	<u>-</u>	<u>-</u>	<u>23,718</u>	<u>398,973</u>
Fund balances:					
Nonspendable	19,586	-	-	1,848	21,434
Restricted fund balance					
Public, educational, and government access fees	6,830	-	-	-	6,830
Public Safety	-	-	-	16,488	16,488
Parks	-	-	-	12,500	12,500
Capital Projects	-	2,791,451	-	-	2,791,451
Debt Service	-	-	34,085	-	34,085
Assigned fund balance					
Construction Projects	185,000	-	-	-	185,000
Unassigned fund balance	1,162,257	-	-	(43,465)	1,118,792
	<u>1,373,673</u>	<u>2,791,451</u>	<u>34,085</u>	<u>(12,629)</u>	<u>4,186,580</u>
Total fund balances	<u>1,373,673</u>	<u>2,791,451</u>	<u>34,085</u>	<u>(12,629)</u>	<u>4,186,580</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 1,962,599</u>	<u>\$ 3,377,674</u>	<u>\$ 34,085</u>	<u>\$ 56,856</u>	<u>\$ 5,431,214</u>

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

CITY OF HUDSON OAKS, TEXAS
Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
September 30, 2017

Total Fund Balances - Governmental Funds	\$	4,186,580
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. The cost of these assets was \$13,971,850 and the accumulated depreciation was \$3,297,453.		10,674,397
Long-term liabilities, including \$7,880,806 bonds payable, \$53,248 of capital leases payable and \$132,250 compensated absences payable are not due and payable in the current period, and, therefore are not reported as a liability in the fund financial statements.		(8,066,304)
Interest payable is not expected to be liquidated with available financial resources and is not reported as a liability in the fund financial statements.		(42,479)
Franchise taxes receivable, sales tax receivable, and fines and fees receivable are not available soon enough to pay for the current period's expenditures and therefore are deferred revenue in the fund financial statements.		398,973
Included in the items related to noncurrent liabilities is the recognition of the City's net pension liability required by GASB 68 in the amount of \$501,416, a deferred resource inflow related to pensions of \$130,325 and a deferred resource outflow related to pensions in the amount of \$195,009. This resulted in a decrease to net position.		(436,731)
The City uses an internal service fund to charge costs of reimbursements to employees for health care costs above deductible amounts. The adjustment is to reflect the consolidation of the internal service fund activities related to governmental activities.		8,289
Net Position of Governmental Activities	<u>\$</u>	<u>6,722,725</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	General Capital Projects Fund	General Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes					
Sales and Use	\$ 1,892,655	\$ -	-	\$ -	\$ 1,892,655
Franchise	175,008	-	-	-	175,008
Licenses and permits	278,502	-	-	-	278,502
Charges for services	7,975	-	-	-	7,975
Municipal court fines	71,060	-	-	2,551	73,611
Interest	18,594	29,733	516	-	48,843
Intergovernmental	-	139,572	-	-	139,572
Miscellaneous	57,027	125,000	-	109,309	291,336
Total revenues	<u>2,500,821</u>	<u>294,305</u>	<u>516</u>	<u>111,860</u>	<u>2,907,502</u>
EXPENDITURES:					
Current:					
General government	492,908	-	-	124,498	617,406
Public safety	1,259,375	-	-	1,700	1,261,075
Streets	83,678	-	-	-	83,678
Parks and facilities	70,589	-	-	-	70,589
Planning and development	144,939	-	-	-	144,939
Mayor and council	8,244	-	-	-	8,244
Capital outlay	-	3,064,538	-	-	3,064,538
Debt service:					
Principal	26,078	-	378,750	-	404,828
Interest and fiscal charges	1,848	-	298,872	-	300,720
Total expenditures	<u>2,087,659</u>	<u>3,064,538</u>	<u>677,622</u>	<u>126,198</u>	<u>5,956,017</u>
Excess (deficiency) of revenues over (under) expenditures	<u>413,162</u>	<u>(2,770,233)</u>	<u>(677,106)</u>	<u>(14,338)</u>	<u>(3,048,515)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	-	318,045	694,020	-	1,012,065
Transfers out	(694,020)	-	-	-	(694,020)
Issuance of capital lease	29,116	-	-	-	29,116
Total other financing sources (uses):	<u>(664,904)</u>	<u>318,045</u>	<u>694,020</u>	<u>-</u>	<u>347,161</u>
Net change in fund balance	(251,742)	(2,452,188)	16,914	(14,338)	(2,701,354)
Fund balance, October 1	<u>1,625,415</u>	<u>5,243,639</u>	<u>17,171</u>	<u>1,709</u>	<u>6,887,934</u>
Fund balance, September 30	<u>\$ 1,373,673</u>	<u>\$ 2,791,451</u>	<u>\$ 34,085</u>	<u>\$ (12,629)</u>	<u>\$ 4,186,580</u>

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

CITY OF HUDSON OAKS, TEXAS
Reconciliation of Statement of Revenues,
Expenditures and Changes in Fund Balances of
The Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ (2,701,354)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including \$3,093,654 of capital outlays and \$404,828 of debt principal payments is to increase net position.	3,498,482
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(287,921)
Current year issuance of capital lease payables are other financing sources in the fund financial statements. The effect of \$29,116 increase in capital lease payable is a decrease to net position.	(29,116)
Current year interest payable and compensated absences of the governmental funds are not due and payable in the current period, and, therefore are not reported as liabilities in the fund financial statements. The net effect of the \$9,015 decrease in interest payable, \$26,234 increase in compensated absences payable and \$13,902 amortization of deferred charges, premiums and discounts is to decrease net position.	(3,317)
Sales tax, franchise tax, fines and fees, and other intergovernmental revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenues in the fund statements.	(111,015)
GASB required the City to recognize their net pension liability, deferred resource inflow related to pensions and deferred resource outflow related to pensions. The changes in these balances decreased net position.	(3,846)
The City uses and internal service fund to charge the costs of health costs reimburseable to employees to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	(10,452)
Change in Net Position of Governmental Activities	\$ 351,461

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

CITY OF HUDSON OAKS, TEXAS

Statement of Net Position

Proprietary Fund

For the Year Ended September 30, 2017

	Business-type Activities			Governmental
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Fund
Assets				
Current Assets:				
Cash	\$ 997,119	\$ 15,391	\$ 1,012,510	\$ 8,289
Investments	88,463	-	88,463	-
Accounts receivable (net of allowance for doubtful accounts)	304,730	40,771	345,501	-
Miscellaneous receivables	462,062	-	462,062	-
Due from other funds	60,000	372,686	432,686	-
Prepaid expense	8,875	-	8,875	-
Restricted cash	545,616	142	545,758	-
Total current assets	<u>2,466,865</u>	<u>428,990</u>	<u>2,895,855</u>	<u>8,289</u>
Noncurrent Assets:				
Capital Assets:				
Nondepreciable	605,021	198,104	803,125	-
Depreciable, net of accumulated depreciation	9,027,128	-	9,027,128	-
Total noncurrent assets	<u>9,632,149</u>	<u>198,104</u>	<u>9,830,253</u>	<u>-</u>
Total assets	<u>12,099,014</u>	<u>627,094</u>	<u>12,726,108</u>	<u>8,289</u>
Deferred Outflow of Resources				
Deferred Outflow Related to Pensions	84,120	-	84,120	-
Total deferred outflow of resources	<u>84,120</u>	<u>-</u>	<u>84,120</u>	<u>-</u>
Liabilities				
Current Liabilities:				
Accounts payable	127,295	8,165	135,460	-
Accrued payroll	6,361	-	6,361	-
Compensated absences payable	33,971	-	33,971	-
Due to other funds	-	60,000	60,000	-
Current liabilities payable from restricted assets:				
Current portion of long-term debt	391,981	21,039	413,020	-
Accrued interest payable	31,239	2,496	33,735	-
Total current liabilities	<u>590,847</u>	<u>91,700</u>	<u>682,547</u>	<u>-</u>
Noncurrent Liabilities:				
Capital lease payable	14,913	-	14,913	-
Net pension liability	216,429	-	216,429	-
Certificates of obligation	5,357,205	528,452	5,885,657	-
Total noncurrent liabilities	<u>5,588,547</u>	<u>528,452</u>	<u>6,116,999</u>	<u>-</u>
Total liabilities	<u>6,179,394</u>	<u>620,152</u>	<u>6,799,546</u>	<u>-</u>
Deferred Inflow of Resources				
Deferred Inflow Related to Pensions	56,253	-	56,253	-
Total deferred outflow of resources	<u>56,253</u>	<u>-</u>	<u>56,253</u>	<u>-</u>
Net Position				
Net Investment in capital assets	4,404,702	21,299	4,426,001	-
Restricted for debt service (expendable)	8,966	142	9,108	-
Restricted for impact fees (expendable)	178,627	-	178,627	-
Unrestricted	1,355,192	(14,499)	1,340,693	8,289
Total net position	<u>\$ 5,947,487</u>	<u>\$ 6,942</u>	<u>\$ 5,954,429</u>	<u>\$ 8,289</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended September 30, 2017

	Business-type Activities			Governmental Activities
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Fund
Operating revenues:				
Water, wastewater and Stormwater	\$ 1,718,017	\$ 172,847	\$ 1,890,864	\$ -
Management contract charges	233,093	-	233,093	-
Late payment charges	8,475	-	8,475	-
Tap Fees	16,500	-	16,500	-
Impact fees	17,943	-	17,943	-
Customer assessment fees	2,791	-	2,791	-
Intergovernmental		31,029	31,029	-
Miscellaneous fees & charges	41,453	-	41,453	47,667
Total operating revenues	<u>2,038,272</u>	<u>203,876</u>	<u>2,242,148</u>	<u>47,667</u>
Operating expenses:				
Personal services	547,578	-	547,578	-
Professional services	77,825	8,165	85,990	58,228
Supplies	59,292	-	59,292	-
Operations	506,030	38,061	544,091	-
Maintenance and repairs	94,209	25,600	119,809	-
Well utilities	86,460	-	86,460	-
Depreciation	487,759	-	487,759	-
Total operating expenses	<u>1,859,153</u>	<u>71,826</u>	<u>1,930,979</u>	<u>58,228</u>
Operating income (loss)	<u>179,119</u>	<u>132,050</u>	<u>311,169</u>	<u>(10,561)</u>
Nonoperating revenues (expenses)				
Interest	5,290	37	5,327	109
Interest expense	(186,597)	(18,201)	(204,798)	-
Total nonoperating revenues (expenses)	<u>(181,307)</u>	<u>(18,164)</u>	<u>(199,471)</u>	<u>109</u>
Contributions and transfers:				
Transfer out	(318,045)	-	(318,045)	-
	<u>(318,045)</u>	<u>-</u>	<u>(318,045)</u>	<u>-</u>
Change in net position	(320,233)	113,886	(206,347)	(10,452)
Net Position, Beginning	<u>6,267,720</u>	<u>(106,944)</u>	<u>6,160,776</u>	<u>18,741</u>
Net Position, Ending	<u>\$ 5,947,487</u>	<u>\$ 6,942</u>	<u>\$ 5,954,429</u>	<u>\$ 8,289</u>

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

CITY OF HUDSON OAKS, TEXAS
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2017

	Business-type Activities			Governmental Activities
	Water & Wastewater	Stormwater Utility	Total Enterprise Funds	Internal Service Fund
Cash flows from operating activities:				
Cash received from customers and users	\$ 2,214,746	\$ 193,971	\$ 2,408,717	\$ 47,667
Cash paid to suppliers	(812,155)	(63,661)	(875,816)	(58,228)
Cash paid to employees	(548,270)	-	(548,270)	-
Net cash provided (used) by operating activities	<u>854,321</u>	<u>130,310</u>	<u>984,631</u>	<u>(10,561)</u>
Cash flow from noncapital financing activities:				
Due to other funds	-	(74,721)	(74,721)	-
Due from other funds	74,721	198,104	272,825	-
Transfers in (out)	(318,045)	-	(318,045)	-
Net cash provided (used) by noncapital financing activities	<u>(243,324)</u>	<u>123,383</u>	<u>(119,941)</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Principal payments - certificates of obligation	(371,250)	(20,000)	(391,250)	-
Principal payments - capital leases	(7,121)	-	(7,121)	-
Purchase of property, plant and equipment	(106,733)	(198,104)	(304,837)	-
Special assessments	89,167	-	89,167	-
(Increase) decrease in miscellaneous receivables	(539)	-	(539)	-
Interest payments	(196,898)	(20,092)	(216,990)	-
Net cash flows provided by (used in) capital and related financing activities	<u>(593,374)</u>	<u>(238,196)</u>	<u>(831,570)</u>	<u>-</u>
Cash flows from investing activities:				
Interest received	5,290	37	5,327	109
(Purchase) sale of investments	(611)	-	(611)	-
Net cash provided by (used in) investing activities	<u>4,679</u>	<u>37</u>	<u>4,716</u>	<u>109</u>
Net increase (decrease) in cash	<u>22,302</u>	<u>15,534</u>	<u>37,836</u>	<u>(10,452)</u>
Cash, October 1	<u>1,520,433</u>	<u>-</u>	<u>1,520,433</u>	<u>18,741</u>
Cash, September 30	<u>\$ 1,542,735</u>	<u>\$ 15,534</u>	<u>\$ 1,558,269</u>	<u>\$ 8,289</u>
Reconciliation of income from operations to net cash provided by operating activities:				
Income (loss) from operations	\$ 179,119	132,050	311,169	(10,561)
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities				
Depreciation	487,759	-	487,759	-
(Increase) decrease in accounts receivable	6,062	(9,905)	(3,843)	-
(Increase) decrease in miscellaneous receivables	170,412	-	170,412	-
(Increase) decrease in prepaid expenses	-	-	-	-
(Increase) decrease in deferred outflow of resources	8,660	-	8,660	-
Increase (decrease) in accounts payable	11,661	8,165	19,826	-
Increase (decrease) in accrued payroll	758	-	758	-
Increase (decrease) in compensated absences	1,698	-	1,698	-
Increase (decrease) in net pension liability	(45,848)	-	(45,848)	-
Increase (decrease) in deferred inflow of resources	34,040	-	34,040	-
Net adjustments	<u>675,202</u>	<u>(1,740)</u>	<u>673,462</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 854,321</u>	<u>\$ 130,310</u>	<u>\$ 984,631</u>	<u>\$ (10,561)</u>
Noncash Investing, Capital and Financing Activities				
Capital assets purchased with capital lease	<u>\$ 29,196</u>	<u>\$ -</u>	<u>\$ 29,196</u>	<u>\$ -</u>

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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General Statement

The City of Hudson Oaks (the “City”) is a General Law Type A city which adopted a council-administrator form of government by ordinance in 2007. The City provides the following services as authorized by the State of Texas Local Government Code: public safety (police), public works, parks and recreation, water, wastewater, stormwater, and general administration.

The accounting and reporting policies of the City relating to the funds are included in the accompanying financial statements and conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City’s financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City’s reporting entity, as set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate
- The City holds the corporate powers of the organization
- The City appoints a voting majority of the organization’s board
- The City is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the City
- There is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Hudson Oaks has no component units.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all on the nonfiduciary activities of the primary government and the internal service fund. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized as soon as they are 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. The government considers all revenues available if they are collected within 30 days after year-end. Expenditures generally are recorded when the related fund liability is incurred, however, debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized when payment is due.

Sales taxes, franchise taxes, licenses, and interest associated with the current period are all considered to be susceptible to accrual and have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when the government receives payment.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges and transfers between the governmental activities and the business-type activities, which cannot be eliminated.

The City reports the following major governmental funds:

The *general fund* is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax receipts and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

The *general capital projects fund* is used to account for the acquisition and construction of the government's major capital facilities and equipment, other than those financed by proprietary funds.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

The City reports the following major proprietary funds:

The *water and wastewater fund* is used for activities which are financed and operated in a manner similar to private business enterprise 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 be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Combining schedules can be found on page 58 - 60 of the financial statements, under enterprise fund supplementary information. There are no external parties that require separate segment reporting for the supplementary information.

The *stormwater utility fund* accounts for the operation of the Stormwater Utility and provides funding for storm drainage capital improvements and enhanced maintenance of the storm drainage system in order to reduce stormwater related pollutants from entering the City's waterways. The fund also accounts for the accumulation of resources for and the payment of long-term principal and interest for the stormwater debt.

Additionally, the government reports the following fund types:

The *internal service fund* accounts for health insurance reimbursements and health card advancements to employees of the government. The internal service fund charges various other funds containing personnel to provide these services for employees. Because these services predominately benefit the governmental rather than the business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

Proprietary funds, distinguish operating revenue and expense 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 water and wastewater fund are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Net Position or Equity

1) Cash, Cash Equivalents, and Investments

For the purposes of the statement of cash flows for the proprietary fund, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less when purchased. The City does not include cash in broker accounts pending investment or amounts invested in TexPool or TexStar as cash equivalents.

2) Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as Due To/From Other Funds. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All receivables are presented net of allowance for uncollectible accounts. Water, dyegard, wastewater, and stormwater funds accounts receivable with final status comprise the allowance for uncollectible accounts of \$15,685. In the governmental activities the fines and fees receivable are reported net of an allowance of \$167,514 which is 55% of the outstanding receivable.

3) Unbilled Services

Utility operating revenues (water, dyegard, wastewater and stormwater) are billed on monthly cycles. The City records estimated revenues for services delivered during the current fiscal year, which will be billed during the next fiscal year. \$115,850 of unbilled services is reported with accounts receivable in the proprietary fund.

4) Restricted Assets

The City has established Interest and Sinking Fund accounts in the utility capital projects fund. The use of these accounts is limited by bond ordinances and other legal restrictions.

5) Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental activities or business-type activities columns in the government-wide financial statements and in the proprietary fund financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Major outlays for capital assets and improvements are capitalized in the proprietary funds as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities and proprietary funds is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the proprietary fund during the current year was \$204,798. Of this amount, \$0 was included as part of the cost of capital assets under construction in connection with water, wastewater or stormwater construction projects.

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

Buildings	40 years
Water plant	7-25 years
Distribution system	30 years
Office equipment	5-7 years
Automobiles and trucks	3-5 years

6) 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 or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one items that qualifies in this category. Deferred outflows related to pensions reported in the government-wide statement of net position and proprietary funds statement of net position.

In addition to liabilities, the statement of financial position and governmental funds balance sheet 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 or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resource (revenue) until that time. The City has two types of items in this category. Unavailable revenues for governmental funds and deferred inflows related to pensions in the government-wide statement of net position and proprietary funds statements are reported as deferred inflows of resources. At the end of the fiscal year the components of deferred inflows in the governmental funds were as follows:

Deferred Revenue	
Sales taxes	\$ 163,462
Franchise taxes	74,737
Court fines	137,056
Ticket sales	23,718
	\$ 398,973
	\$ 398,973



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7) Compensated Absences

The City allows vacation leave with pay for all regular full-time employees after one full year of employment. Employees may carry no more than one-half of their earned vacations to the following year up to a maximum of thirty days (240 hours). Upon termination an employee may be allowed payment for accumulated vacation pay. Employees who terminate employment in good standing and who have not been terminated for disciplinary reasons are eligible to receive compensation for a portion of their accrued sick leave after their accrued hours exceed 100. All vacation and sick pay benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for vacation and sick pay is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

8) Pensions

For 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 additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. 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.

9) Long-term Obligations

In the government-wide financial statements, and proprietary fund type 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 statements of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. 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 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. Issuances cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10) Fund Balances – Governmental Funds

The City implemented GASB No. 54, *Fund Balance and Governmental Fund Type Definitions*, in fiscal year 2011. In the fund financial statements, governmental funds report the following classifications of fund balance.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes. Committed fund balance is reported pursuant to formal action by City Council, the City's highest level of decision making authority. Commitments may be established, modified, or rescinded only through formal action of City Council.

Assigned – includes amounts that the City intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. City Council has designated the City Administrator the authority to assign fund balance.

Unassigned – all amounts not included in other spendable classifications.

The details of the fund balances are included in the Governmental Funds Balance Sheet (page 17). When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to be spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been first spent out of committed funds, then assigned, and finally unassigned as needed. The City's financial goal is to have sufficient balance in the General Fund with sufficient working capital and margin of safety to address local and regional emergencies without borrowing. The City strives to maintain a General Fund Balance of 30% of the City's general fund annual operating expenditures.

11) Use of Restricted/Unrestricted Net Position

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted net position first.

12) Comparative Data

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

13) Use of Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles requires the use of management's estimates.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS:

The City is authorized within the guidelines provided by the Public Funds Investment Act, Texas Government Code Chapter 2256 and local ordinances to invest (1) in obligations of the United States, its agencies, and instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) collateralized mortgage obligations issued and guaranteed by an agency or instrumentality of the United States, (4) obligations of states, agencies, counties, cities and other political subdivisions of any state rated as to investment quality of not less than “A” or its equivalent by a nationally-recognized investment firm, (5) certificates of deposit issued by state or national banks domiciled in the State of Texas, insured by the Federal Deposit Insurance Corporation or secured by obligations described in (1) through (4) above that have a market value of not less than the principal amount of the certificates, (6) investment pools authorized by the Act and (7) fully collateralized repurchase agreements.

In compliance with the Public Funds Investment Act, the government has adopted a deposit and investment policy. That policy addresses the following risks:

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government 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 investments are with the Teas Local Government Investment Pool (“TexPool”), the Texas Short-Term Asset Reserve Investment Pool (“TexStar”), and in certificates of deposit.

Under the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. through an agreement with the State of Texas Comptroller of Public Accounts. The State Comptroller is the sole officer, director, and shareholder of the Texas Treasurer Safekeeping Trust Company authorized to operate TexPool. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Audited financial statements of the Pool are available at First Public, 12009 Research Blvd. Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor’s Office and by the Internal Auditor of the Comptroller’s Office. The reported value of the pool is the same as the fair value of the pool shares.

Credit Risk – Investments: This is the risk that an issuer of an investment will be unable to fulfill its obligations. The ratings of securities by nationally recognized rating agencies is designed to give an indication of credit risk. It is the government’s policy to limit its investments to those investments rated at least AAAM. The credit quality rating for both TexPool and TexStar at year end was AAAM by Standard & Poor’s.

Interest Rate Risk – Investments: This is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the government manages its exposure to decline in fair values by limiting the weight average maturity of its investment portfolio to less than one year from the time pf purchase. The maximum allowable maturity for operating funds is five years and two years for debt service funds. The weight average maturity for the government’s investment in external investment pools is less than 60 days.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. Consistent with the requirements of State law, it is the policy of the City to require full collateralization of all City deposits. An appropriate third-



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 2 - DEPOSITS AND INVESTMENTS (continued)

party safekeeping agent, as designated by the City, shall maintain collateral on deposits. This policy applies to any deposits held in an approved depository in excess on the amount protected by Federal Deposit

Insurance Corporation insurance. The City’s deposits were fully insured or collateralized as required by the state statutes at September 30, 2017. The collateral is held by Frost National Bank in the City’s name under a joint safekeeping agreement with First Financial Bank N.A.

The City invests in the Texas Short Term Asset Reserve Fund (TexStar) and the Texas Local Government Investment Pool (TexPool). TexStar and TexPool are local government investment pools organized under the authority of the Interlocal Corporation Act 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. All investments of TexStar and TexPool are stated at amortized cost, which in most cases approximates the market value of the securities. The objectives of TexStar and TexPool are to maintain a stable \$1.00 net asset value, however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas or the pools themselves.

The City controls credit risk by limiting investments to those investments authorized by both the Public Funds Investment Act and by its investment policy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of September 30, 2017:

- Property acquisitions valued at \$129,000 within City limits for economic development purposes using property brokers opinion from sales and purchases around the area (Level 3 input).

Description	Cost	Fair Value	Percentage of Total Investments	Standard & Poor's	Weighted Average Maturity	Fair Value Measurements Using
TexPool	\$ 347,915	\$ 347,915	8.69%	AAAm	37 days	Amortized Cost
TexStar	3,526,190	3,526,190	88.09%	AAAm	33 days	Amortized Cost
Land	78,113	129,000	3.22%			Level 3
	<u>\$ 3,952,218</u>	<u>\$ 4,003,105</u>	100.00%			



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

Governmental Activities	Balance 09/30/2016	Additions	Retirements	Balance 09/30/2017
Non - Depreciable Assets:				
Land	\$ 460,487	\$ 318,545	\$ -	\$ 779,032
Construction in Progress	2,703,542	2,509,419	-	5,212,961
Total non-depreciable assets	3,164,029	2,827,964	-	5,991,993
Depreciable Assets:				
Equipment	304,374	29,116	(70,651)	262,839
Automobiles	218,291	-	(25,727)	192,564
Buildings	2,329,801	236,574	-	2,566,375
Improvements	267,429	-	-	267,429
Infrastructure	4,690,650	-	-	4,690,650
Total capital assets being depreciated	7,810,545	265,690	(96,378)	7,979,857
Accumulated Depreciation:				
Equipment	(301,706)	(3,761)	70,651	(234,816)
Automobiles	(125,837)	(32,168)	25,727	(132,278)
Buildings	(510,801)	(60,270)	-	(571,071)
Improvements	(124,849)	(13,234)	-	(138,083)
Infrastructure	(2,042,717)	(178,488)	-	(2,221,205)
Total accumulated depreciation	(3,105,910)	(287,921)	96,378	(3,297,453)
Governmental activities capital assets, net	\$ 7,868,664	\$ 2,805,733	\$ -	\$ 10,674,397



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 3 - CAPITAL ASSETS (continued)

Business-type activities:	Balance 09/30/2016	Additions	Retirements	Balance 09/30/2017
Non-Depreciable Assets:				
Land	\$ 559,867	\$ -	\$ -	\$ 559,867
Construction in Progress	24,334	218,924	-	243,258
Total non-depreciable assets	584,201	218,924	-	803,125
Buildings	46,413	-	-	46,413
Water plant	4,054,667	36,685	-	4,091,352
Water distribution	4,926,538	49,230	-	4,975,768
Wastewater systems	3,799,622	-	-	3,799,622
Automobiles	122,692	29,196	-	151,888
Equipment	164,898	-	(4,140)	160,758
Intangible assets	787,886	-	-	787,886
Total capital assets being depreciated	13,902,716	115,111	(4,140)	14,013,687
Accumulated Depreciation:				
Buildings	(11,658)	(1,188)	-	(12,846)
Water plant	(1,205,184)	(117,735)	-	(1,322,919)
Water distribution	(1,946,347)	(189,690)	-	(2,136,037)
Wastewater lines	(937,859)	(126,847)	-	(1,064,706)
Automobiles	(100,240)	(11,071)	-	(111,311)
Equipment	(90,635)	(12,680)	4,134	(99,181)
Intangible assets	(211,011)	(28,548)	-	(239,559)
Total accumulated depreciation	(4,502,934)	(487,759)	4,134	(4,986,559)
Business-type activities capital assets, net	\$ 9,983,983	\$ (153,724)	\$ (6)	\$ 9,830,253



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 3 - CAPITAL ASSETS (continued)

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

Governmental activities:	
General government	\$ 48,288
Public safety	61,145
Highways and streets and parks	178,488
Total depreciation expense - governmental activities	<u>\$ 287,921</u>
Business-type activities:	
Hudson Oaks water system	\$ 245,391
Wastewater	143,732
Dyegard water system	98,636
Total depreciation expense - business-type activities	<u>\$ 487,759</u>

Intangible Assets

June 20, 2003, the water and wastewater fund purchased raw water capacity rights in Benbrook Lake, capacity rights in the Benbrook Pipeline and capacity rights in the Weatherford Treatment Facility. The Enterprise Fund purchased these rights through an agreement with Parker County Utility District #1.

The total cost associated with the buy-ins was \$787,886. This cost was financed with the Combination Tax and Revenue Certificates of Obligation, Series 2003. The debt was refunded with the General Obligation Refunding Bonds, Series 2010. The Benbrook Lake and Treatment Facility capacity rights were then sold back to the City of Weatherford for a credit balance towards future impact fees and demand charges. As of September 30, 2017, the credit from the City of Weatherford was \$62,237.

In April of 2004 the water and wastewater fund paid an additional \$104,935 of legal fees associated with the rights purchased through the agreement with Parker County Utility District #1 (PCUD #1). Per amendment number 1 effective March 31, 2004, \$147,916 of the legal fees are related to initial organization cost.

August 24, 2009, the City entered into an agreement with Parker County Special Utility District (PCSUD) to purchase PCSUD's raw water capacity reservation for \$490,834. The raw water capacity reservation reserves the right for the City to receive raw water from Tarrant Regional Water District. The raw water capacity reservation is based on a projected 30-year average daily use of 1.0 MGD.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 3 - CAPITAL ASSETS (continued)

A summary of intangible assets as of September 30, 2017, follows:

	<u>Term</u>	<u>Asset</u>	<u>Accumulated Depreciation</u>	<u>Net Asset</u>
Depreciated intangible assets				
TRWD Raw Water Buy-in	28 years	\$ 134,839	\$ (61,706)	\$ 73,133
TRWD Raw Water Capacity	30 years	490,834	(102,271)	388,563
Legal Fees For Buy-ins	30 years	162,213	(75,582)	86,631
		<u>\$ 787,886</u>	<u>\$ (239,559)</u>	<u>\$ 548,327</u>

Aggregate Intangible Depreciation Expense:

For the year ended September 30, 2017	<u>\$ 28,548</u>
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NOTE 4 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of the interfund balances for the City’s individual major funds and nonmajor funds as of September 30, 2017, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	General capital projects	\$ 47,697
General capital projects	General	114,000
General	Other Governmental Funds	40,837
Total Governmental Funds		<u>\$ 202,534</u>
Water and wastewater	Stormwater utility	\$ 60,000
Stormwater utility	General capital projects	372,686
Total business-type activities funds		<u>\$ 432,686</u>

The composition of the interfund transfers for the City’s individual major funds and nonmajor funds as of September 30, 2017, is as follows:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>	<u>Purpose</u>
General capital projects	Water and wastewater	\$ 318,045	Capital Outlay
Debt Service	General	694,020	Debt Service
Total Governmental Funds Transfer In		<u>\$ 1,012,065</u>	



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 5 – LONG-TERM DEBT

A. Capital Leases

Governmental Activities:

On October 25, 2015, the general fund acquired two police vehicles with a capital lease. The lease requires three annual payments of \$13,495 beginning October 2016. The interest rate is 2.6%. The outstanding balance as of September 30, 2017 was \$25,944.

On April 25, 2017, the general fund acquired computers for police vehicles with a capital lease. The lease requires monthly payments of \$565 beginning June 2017. The interest rate is 5%. The outstanding balance as of September 30, 2017 was \$27,304.

Business-type Activities:

On September 8, 2017, the deer creek fund acquired a vehicle with a capital lease. The lease requires three annual payments of \$7,780 beginning September 2018. The interest rate is 2.8%. The outstanding balance as of September 30, 2017 was \$22,075.

The following is an analysis of capital assets purchased under capital leases as of September 30, 2017:

	Governmental Activities	Business-type Activities
Automobiles	\$ 69,352	\$ 29,196
Equipment	29,116	-
Less accumulated depreciation	(47,505)	(487)
	\$ 50,963	\$ 28,709

The following is a schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at September 30, 2017:

	Governmental Activities	Business-type Activities
2018	\$ 20,274	\$ 7,780
2019	20,274	7,780
2020	6,779	7,762
2021	6,779	-
2022	4,520	-
Total minimum lease payments	58,626	23,322
Amount representing interest	(5,378)	(1,247)
Present value of future minimum payments	\$ 53,248	\$ 22,075



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 5 – LONG-TERM DEBT (continued)

Bonds, certificates of obligation payable at September 30, 2017, consist of the following individual issues:

Governmental Activities

\$1,800,000 2007 Certificates of Obligation, for construction of street, bridge, curb, and sidewalk improvements, together with utility relocation and drainage improvements, due in annual installments through August 1, 2027, 4.10%.	\$ 1,105,000
\$810,000 2010 General Obligation Refunding Bonds, refunding the 2008 Tax Notes, due in annual installments through August 1, 2023, 3.00% - 4.00%.	340,000
\$722,750 2012 Certificates of Obligation, issued for middle median improvements, due in annual installments through August 1, 2032, 2.00% - 3.50%.	623,700
\$4,195,000 2016A Certificates of Obligation, for construction of road projects and a downtown development. The payments are due in annual installments through February 1, 2036, 2.00% - 5.00%	4,065,000
\$1,540,000 2016B Certificates of Obligation, for construction of City fiber internet lines, due in annual installments through February 1, 2036, 2.00% - 6.00%.	<u>1,505,000</u>
Total Governmental Activities	<u><u>\$ 7,638,700</u></u>



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 5 – LONG-TERM DEBT (continued)

Business-type Activities

\$1,185,000 2010 General Obligation Refunding Bonds, to refund the 2000B Certificates of Obligation and 2003 Certificates of Obligation. The bonds are due in annual installments through August 1, 2023, 3.00% - 4.00%.	\$ 475,000
\$2,915,000 2010 Certificates of Obligation, for the acquisition of the Dyegard water system, due in annual installments through August 1, 2035, 2.50% - 4.25%.	2,380,000
\$2,124,300 2012 Certificates of Obligation, issued for water system improvements, due in annual installments through August 1, 2032, 2.00% - 3.50%.	1,686,300
\$1,235,000 2014 Certificates of Obligation, for the construction, expansion and improvements to the City's sanitary wastewater system, due in annual installments through August 1, 2024, 2.15%.	1,085,000
\$550,000 2016A Certificates of Obligation, for drainage projects associated with the new downtown development. The payments are due in annual installments through February 1, 2036, 2.00% - 5.00%	<u>530,000</u>
Total Business-type activities	<u>\$ 6,156,300</u>

The annual requirements to amortize all bonded debt outstanding as of September 30, 2017 are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2018	433,750	251,102	684,852	396,250	201,791	598,041
2019	405,100	232,612	637,712	454,900	191,234	646,134
2020	425,100	213,965	639,065	464,900	179,053	643,953
2021	421,450	194,313	615,763	458,550	166,158	624,708
2021	437,800	177,609	615,409	467,200	153,057	620,257
2023 - 2027	2,243,850	667,835	2,911,685	1,716,150	566,858	2,283,008
2028 - 2032	1,831,650	349,855	2,181,505	1,533,350	301,652	1,835,002
2033 - 2037	1,440,000	88,768	1,528,768	665,000	53,485	718,485
Debt service requirements	\$ 7,638,700	\$ 2,176,059	\$ 9,814,759	\$ 6,156,300	\$ 1,813,288	\$ 7,969,588
Add: Unamortized premium	242,106	-	242,106	135,215	-	135,215
Total	<u>\$ 7,880,806</u>	<u>\$ 2,176,059</u>	<u>\$10,056,865</u>	<u>\$ 6,291,515</u>	<u>\$ 1,813,288</u>	<u>\$ 8,104,803</u>



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 5 – LONG-TERM DEBT (continued)

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2017:

	9/30/16	Additions	Retirements	9/30/17	Due within one year
Governmental Activities:					
Certificates of Obligation, 2007	\$ 1,190,000	\$ -	\$ 85,000	\$ 1,105,000	\$ 90,000
General Obligation Refunding, 2010	435,000	-	95,000	340,000	100,000
2010 Premium on bond	9,412	-	1,176	8,236	1,176
Certificates of Obligation, 2012	657,450	-	33,750	623,700	33,750
2012 Premium on Bond	20,264	-	1,266	18,998	1,266
Certificates of Obligation, 2016A	4,195,000	-	130,000	4,065,000	160,000
2016A Premium on Bond	156,785	-	7,938	148,847	7,938
Certificates of Obligation, 2016B	1,540,000	-	35,000	1,505,000	50,000
2016B Premium on Bond	69,546	-	3,521	66,025	3,521
Capital Leases	50,211	29,116	26,079	53,248	17,999
Net pension liability	594,001	-	92,585	501,416	-
Compensated Absences	106,016	132,250	106,016	132,250	132,250
Total Governmental Activities	9,023,685	161,366	617,331	8,567,720	597,900
Business-type Activities:					
Certificates of Obligation, 2010	2,475,000	-	95,000	2,380,000	95,000
2010 Premium on bond	61,986	-	3,263	58,723	3,263
General Obligation Refunding, 2010	605,000	-	130,000	475,000	135,000
2010 Premium on bond	7,519	-	1,879	5,640	1,879
Certificates of Obligation 2012	1,777,550	-	91,250	1,686,300	91,250
2012 Premium on Bond	54,788	-	3,427	51,361	3,427
Certificates of Obligation, 2014	1,140,000	-	55,000	1,085,000	55,000
Certificates of Obligation, 2016A	550,000	-	20,000	530,000	20,000
2016A Premium on Bond	20,530	-	1,039	19,491	1,039
Capital Leases	-	29,196	7,121	22,075	7,162
Net pension liability	262,277	-	45,848	216,429	-
Compensated Absences	32,273	33,971	32,273	33,971	33,971
Total Business-type Activities	6,986,923	63,167	486,100	6,563,990	446,991
Total Long-Term Debt	\$16,010,608	\$ 224,533	\$ 1,103,431	\$15,131,710	\$ 1,044,891

For governmental activities, compensated absences payable and net pension obligations are liquidated by the general fund.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 6 – CONDUIT DEBT AGREEMENTS

June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Education Finance Corporation (a non-profit corporation) to finance and refinance education facilities for the purpose of aiding intuitions of higher education and accredited primary and secondary schools within the limitations set forth in Chapter 53, Texas Education Code.

During the year ended December 31, 2005, the board of directors of the Hudson Oaks Education Finance Corporation (the “Corporation”) entered into a \$4,000,000 loan agreement with Lakehill Preparatory School (the “Borrower”) and Frost National Bank (the “Lender”). According to the terms of the loan agreement the Lender is making a loan to the Corporation and the Corporation is making a loan to the Borrower. The proceeds will be used by Borrower to refinance the construction, improvement, and equipping of school buildings and athletic facilities on Borrower’s campus and payment of the costs of issuance. The Corporation’s obligations under the loan agreement are payable solely from the loan payments received from the Borrower and other amounts received, if any, from the enforcement of the security provided by the Borrower Note, and do not constitute, give rise to or impose upon the Corporation or the City of Hudson Oaks, Texas, a pecuniary liability, a charge upon the general credit thereof or a pledge of the general revenues of the City or the Corporation. The Corporation has assigned the Borrower Note to the Lender; therefore, the Lender will make loan payments directly to the Lender. The amount of Hudson Oaks Education Finance Corporation conduit debt obligations outstanding at September 30, 2017 are as follows:

Lakehill Preparatory School Loan Agreement	\$ 2,475,000
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June 10, 2004, the City passed an ordinance authorizing and approving the creation of the Hudson Oaks Health Development Corporation (a non-profit corporation) to acquire, construct, provide, improve, finance, and refinance health facilities to assist the maintenance of the public health, subject to the Texas Health Facilities Development Act. As of September 30, 2017, this corporation has not issued any debt.

NOTE 7 – DEFINIED BENEFIT PENSION PLANS

A. PLAN DESCRIPTION

The City of Hudson Oaks 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.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

B. 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 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 for 2016 and 2015 were the same and were as follows:

Employee deposit rate	7%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Employees covered by benefit terms.

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

Inactive employees or beneficiaries currently receiveing benefits	9
Inactive employees entitled to but not receiving benefits	17
Active employees	<u>23</u>
	49

C. 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.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

C. CONTRIBUTIONS (continued)

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 12.89% and 13.39% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were \$192,297, and were equal to the required contributions.

D. 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 ASSUPMTIONS:

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

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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. Rates are multiplied by a factor of 100%, which adds an additional layer of conservatism. 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's rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality 16 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 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation was 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



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

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, GRS 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 in fiscal year 2017 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%	6.35%
Core-Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100%	

DISCOUNT RATE

The discount rate used to measure the Total Pension Liability 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 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 Total Pension Liability.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

<u>Changes in the Net Pension Liability</u>	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance at 12/31/2015	\$ 3,376,260	\$ 2,519,983	\$ 856,277
Changes for the Year			
Service Cost	224,824		224,824
Interest	233,278		233,278
Change of benefit terms	-		-
Difference between expected and actual performance	(160,582)		(160,582)
Changes of assumptions			0
Contributions- employer		173,428	(173,428)
Contributions- employee		94,181	(94,181)
Net investment income		170,372	(170,372)
Benefit payments, including refunds of employee contributions	(65,411)	(65,411)	-
Administrative expense		(1,923)	1,923
Other changes		(103)	103
Net Changes	<u>232,109</u>	<u>370,544</u>	<u>(138,435)</u>
Balance at 12/31/2016	<u>\$ 3,608,369</u>	<u>\$ 2,890,527</u>	<u>\$ 717,842</u>

SENSITIVITY OF THE NET POSITION 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	<u>\$1,474,288</u>	<u>\$717,842</u>	<u>\$123,654</u>

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.



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
September 30, 2017

NOTE 7 – DEFINED BENEFIT PENSION PLANS (continued)

E. PENSION EXPENSE AND DEFEERED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended September 30, 2017, the city recognized pension expense of \$192,701.

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	\$ 23,854	\$ 169,442
Changes in actuarial assumptions	-	-
Differences between projected and actual investment earnings	105,343	17,136
Contributions subsequent to the measurement date	136,687	-
Total	<u>\$ 265,884</u>	<u>\$ 186,578</u>

\$136,687 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	Net deferred outflows (inflows) of resources
2017	\$ (3,148)
2018	(3,149)
2019	(3,958)
2020	(26,913)
2021	(20,213)
Thereafter	-
	<u>\$ (57,381)</u>



CITY OF HUDSON OAKS, TEXAS
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NOTE 8 – OTHER POST EMPLOYMENT BENEFITS

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

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

Your City offers supplemental death to:	Plan Year 2016	Plan Year 2017
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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 contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were \$1,302, \$1,193 and \$1,086, respectively, which equaled the required contributions each year.

NOTE 9 – RISK MANAGEMENT

The City is exposed to various risks of loss related to theft or damage of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the City’s participation in the Texas Municipal League Intergovernmental Risk Pool (TMLIRP) for liability, property, and workers’ compensation and in the Texas Municipal League Intergovernmental Employee Benefits Pool (TMLIEBP) for employee health insurance. These are self-sustaining risk pools operated on a state-wide basis for the benefit of several hundred Texas cities and other public entities. The City pays annual premiums to the TMLIRP, which retains risk of loss up to \$3,000,000 and obtains independent coverage for losses more than that amount. Monthly premiums are paid to the TMLIEBP, which retains risk of loss up to \$500,000 per individual and obtains independent coverage for losses more than that amount. There have been no reductions in coverage from the coverage in the prior year, and there have been no settlements that exceeded coverage in the current or past four fiscal years.



CITY OF HUDSON OAKS, TEXAS
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September 30, 2017

NOTE 10 – CONTINGENT LIABILITIES

A. Federal and State Programs

The City participates in certain federal and state-assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement, which may arise as the result of these audits is not believed to be material.

NOTE 11 – WATER AND WASTEWATER SERVICE CONTRACTS

A. Treated Water

During 2010, the City entered into a contract for treated water with the City of Weatherford wherein the City of Weatherford agreed to deliver treated water to an existing meter located at the City of Hudson Oaks LOR Water Plant #2. Charges to the City are based upon a volume charge. The wholesale water charge shall be recalculated annually and becomes effective on January 1st of each year.

B. Wastewater Service

The City entered into a 20-year wastewater service contract with the City of Weatherford on January 27, 2000, wherein the City of Weatherford agreed to extend a wastewater collection line to the Weatherford city limits just west of the Hudson Oaks city limits and to provide sewage treatment service for amounts of wastewater collected by the City and delivered to the Weatherford System. The City constructed wastewater facilities including a wastewater collection line from the point of entry of the Weatherford System into the City and related lift stations. Charges to the City are based upon a flow charge for the transmission and treatment of wastewater received from the Hudson Oaks system and a capacity charge to compensate Weatherford for the capacity in the Weatherford system necessary to accept the maximum daily flow from the Hudson Oaks system.

NOTE 12 – CONTRACTS AND COMMITMENTS

- A. On October 25, 2007, the City issued the \$1,800,000 Combination Tax and Revenue Certificates of Obligation, Series 2007. The certificates were issued to fund street, bridge, curb, and sidewalk improvements, consisting principally of the Hudson Oaks Bridge Project (formerly the Lakeshore Bridge project). As of September 30, 2017, \$2,386,974 has been incurred on the project. Additional proceeds from the Combination Tax and Revenue Certificates of Obligation, 2016A were used to cover the overage in the project.
- B. On August 26, 2010 the City entered into an interlocal agreement with the Town of Annetta, Texas in whereby the City agreed to assist Annetta in the operations and management of Annetta's water system.
- C. In November 2014, the City created the Hudson Oaks Public Improvements District No. 1, for the purposes of designing, acquiring and constructing public improvement projects in the District. The District includes approximately 46 acres in the City. The City has committed to fund improvements of up to \$3,534,000 in the District with \$2,000,000 being funded within 120 days of issuance of a notice to proceed on a new grocery store and once the store opens



CITY OF HUDSON OAKS, TEXAS
Notes to the Financial Statements
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NOTE 12 – CONTRACTS AND COMMITMENTS (continued)

the remaining actual costs up to \$1,534,000. The City will issue new bonds to fund the initial \$2,000,000. There was no activity during the year ended September 30, 2017.

In July 2015 the City levied an annual assessment of \$.46 per \$100 of net taxable value against the properties in the District through year 2019. This assessment will be used to fund the long-term debt used to fund the public improvements. The City commenced assessments on October 1, 2017.

- D. On June 1, 2016, the City issued 2016A Certificates of Obligation. The certificates were issued to fund a new downtown development within the City, the Oakey Corridor. As of September 30, 2017, \$717,068 has been incurred on the project.
- E. On June 1, 2016, the City issued 2016B Certificates of Obligation. The certificates were issued to fund a fiber optic cable upgrades throughout the City to connect the City facilities. As of September 30, 2017, \$309,691 has been incurred on the project. The City intends to enter into a lease agreement to lease the fiber cable to a third-party provider.

NOTE 13 – TAX ABATEMENTS

The City is authorized to provide assistance for economic development under Chapter 380 of the Texas Local Government Code. The economic development must serve the purpose of promoting state or local economic development by stimulating business or commercial activity within the City. The assistance may be in the form of loans, grants, tax rebates and use of City personnel and services. The City has entered into Chapter 380 Economic Development Program Agreements with companies and has agreed to provide grants and rebates of sales tax.

The City entered into an economic development agreement dated November 14, 2016, with a developer to reimburse the developer the cost of developing a commercial retail building. The agreement requires the City to rebate to the developer 50% of the City's sales tax collected from the issuance of the certificate of occupancy for a period of four (4) years until the developer has been reimbursed the total sum of \$60,000, whichever occurs first. The City did not rebate any sales tax for the year ended September 30, 2017 to the developer because a Certificate of occupancy has not been issued.

The City entered into an economic development agreement dated January 30, 2017, with a developer to construct a new facility and provide services to residents. The agreement requires the City to rebate all sales tax collected from the issuance of the certificate of occupancy for taxable services provided outside City limits. The City did not rebate any sales tax for the year ended September 30, 2017 to the developer because a Certificate of occupancy has not been issued.



CITY OF HUDSON OAKS, TEXAS
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NOTE 14 – SUBSEQUENT EVENTS

Subsequent events were evaluated through March 12, 2018, which is the date the financial statements were available to be issued.

On January 25, 2018 the City submitted a notice of intent for the issuance of Public Improvement District No. 1 bonds. The issuance is expected to close on or around April 19, 2018. The amount of issuance authorized is not to exceed \$2,500,000.

NOTE 15 - NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 77, *Tax Abatement Disclosures* will improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial users.

NOTE 16 - FUTURE ACCOUNTING PRONOUNCEMENTS

The Government Accounting Standards Board has issued several statements that will be effective in future years. The City has not yet determined the effect these statements will have on its financial reporting.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* replaces the requirements of Statements No. 45 and No. 57 for accounting and financial reporting of postemployment benefits other than pensions. This Statement is effective for fiscal years beginning after June 15, 2017.

GASB Statement No. 87, *Leases* will improve financial reporting by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement is effective for reporting periods beginning after December 15, 2019.

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