SAMCO CAPITAL MARKETS, INC.

AMENDMENT TO THE OFFICIAL STATEMENT
DATED August 20, 2018

FOR
CITY OF WATAUGA, TEXAS
$6,780,000
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

PLEASE BE ADVISED that the referenced Official Statement related to the captioned obligations above is hereby amended and supplemented in the following manner.

On the cover page, the third paragraph the interest payable dates should be February 1 and August 1 as follows:

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

On page 7, as follows:

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

Stickers will be mailed out for printed/hard copies.

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

OFFICIAL STATEMENT
August 20, 2018

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

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

$6,780,000
CITY OF WATAUGA, TEXAS
(A political subdivision of the State of Texas located in Tarrant County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

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

The $6,780,000 City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Watauga, Texas (the "City" or the "Issuer") on August 20, 2018, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

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

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City streets (and utilities repair, replacement, and relocation), including street lighting, curbs, gutters, sidewalks, and drainage improvements necessary or incidental thereto; (2) acquiring, purchasing, improving, constructing, renovating, enlarging, extending, equipping, and/or repairing City administrative, public safety, parks, libraries, and recreation facilities; (3) purchasing equipment and vehicles and installing signage for public safety, parks, maintenance, and other City administrative services; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (5) the payment of professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 19, 2018.

$6,780,000
CITY OF WATAUGA, TEXAS
(A political subdivision of the State of Texas located in Tarrant County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

MATURITY SCHEDULE
(Due February 1)

CUSIP Prefix No. 941097[1]

Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [1]	Stated Maturity 2/1	Principal Amount	Interest Rate	Intital Yield	CUSIP No. Suffix [1]
2019	$ 365,000	2.000%	1.750%	RD1	2029	$ 310,000	3.000%	2.750% [2]	RP4
2020	390,000	3.000%	1.850%	RE9	2030	320,000	3.000%	2.850% [2]	RQ2
2021	480,000	5.000%	1.900%	RF6	2031	325,000	3.000%	2.950% [2]	RR0
2022	310,000	5.000%	2.000%	RG4	2032	335,000	3.000%	3.050%	RS8
2023	330,000	5.000%	2.150%	RH2	2033	350,000	3.000%	3.100%	RT6
2024	245,000	5.000%	2.250%	RJ8	2034	360,000	3.150%	3.150%	RU3
2025	255,000	5.000%	2.350%	RK5	2035	370,000	3.250%	3.200% [2]	RV1
2026	265,000	5.000%	2.500%	RL3	2036	380,000	3.250%	3.250%	RW9
2027	285,000	5.000%	2.600%	RM1	2037	395,000	3.500%	3.300% [2]	RX7
2028	300,000	5.000%	2.650%	RN9	2038	410,000	3.500%	3.350% [2]	RY5

(Interest to accrue from Dated Date)

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

[1] CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

[2] Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2028, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

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CITY OF WATAUGA, TEXAS
7105 Whitley Road
Watauga, Texas 76148

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Patrick Shelbourne Mayor	8	2020	Retired
David Griffin Mayor Pro Tem	>1	2020	IT Manager
Vacant Councilmember, Place 1			
Tom Snyder Councilmember, Place 2	>1	2020	Supervisor
Sandra Bush Councilmember, Place 3	>1	2020	Sales
Melva Clark Councilmember, Place 5	5	2018	Retired
Mark Taylor Councilmember, Place 6	>1	2020	Retired
Kim Irving Councilmember, Place 7	>1	2020	Administrative

ADMINISTRATION

Name	Position	Length of Service (Years)
Andrea Gardner*	City Manager	<1
Sandra Gibson	Director of Finance	14
Zolaina Parker	City Secretary	12
Mark Daniel	City Attorney	34

*Ms. Gardner has previously served for other Texas municipalities.

CONSULTANTS AND ADVISORS

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

Certified Public Accountants.. .Whitley Penn LLP
Houston, Texas

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

For Additional Information Please Contact:

Ms. Andrea Gardner
City Manager
Ms. Sandra Gibson
Director of Finance
City of Watauga
7105 Whitley Road
Watauga, Texas 76148
Phone: (817) 514-5800
agardner@wataugatx.org

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

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

TABLE OF CONTENTS

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 Watauga, Texas (the "City" or "Issuer") is located in Tarrant County, Texas, approximately 10 miles northeast of downtown Fort Worth, Texas and 25 miles northwest of downtown Dallas, Texas. The City's Home Rule Charter was adopted on January 19, 1980 and last amended on May 9, 2015. The City operates under a Mayor-Council-City Manager form of government, with the City Council comprised of eight members including the Mayor. The City's 2018 population is 23,600 (See "APPENDIX B – General Information Regarding the City of Watauga and Tarrant County, Texas" herein.)

The Certificates

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on August 20, 2018 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

Paying Agent/Registrar

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.

Security

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

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2029, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

Tax Matters

In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS", including, except as hereinafter described, the alternative tax on corporations. (See "TAX MATTERS" and, "APPENDIX C - Form of Opinion of Bond Counsel" herein.)

Qualified Tax-Exempt Obligations

The Issuer has designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City streets (and utilities repair, replacement, and relocation), including street lighting, curbs, gutters, sidewalks, and drainage improvements necessary or incidental thereto; (2) acquiring, purchasing, improving, constructing, renovating, enlarging, extending, equipping, and/or repairing City administrative, public safety, parks, libraries, and recreation facilities; (3) purchasing equipment and vehicles and installing signage for public safety, parks, maintenance, and other City administrative services; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (5) the payment of professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
Rating	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 City has never defaulted on the payment of its general obligation or revenue indebtedness.
Future Debt Issues	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2018.
Delivery	When issued, anticipated on or about September 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 Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

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OFFICIAL STATEMENT

relating to

$6,780,000
CITY OF WATAUGA, TEXAS
(A political subdivision of the State of Texas located in Tarrant County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Watauga, Texas (the "City" or the "Issuer") of its $6,780,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page.

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

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

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

THE CERTIFICATES

General Description of the Certificates

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

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

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on August 20, 2018, and the City's Home Rule Charter.

Security for Payment

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

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

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

Redemption Provisions of the Certificates

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

Notice of Redemption

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

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

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with

DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than $5,000 may be redeemed in part (in increments of $5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving City streets (and utilities repair, replacement, and relocation), including street lighting, curbs, gutters, sidewalks, and drainage improvements necessary or incidental thereto; (2) acquiring, purchasing, improving, constructing, renovating, enlarging, extending, equipping, and/or repairing City administrative, public safety, parks, libraries, and recreation facilities; (3) purchasing equipment and vehicles and installing signage for public safety, parks, maintenance, and other City administrative services; (4) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (5) the payment of professional and employee services related to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	$ 6,780,000.00
Accrued Interest on the Certificates	12,779.50
Net Reoffering Premium	355,275.80
Total Sources of Funds	$ 7,148,055.30
Uses	
Project Fund Deposit	$ 7,000,000.00
Purchaser's Discount	49,657.45
Certificate Fund Deposit	12,779.50
Costs of Issuance	85,618.35
Total Uses	$7,148,055.30

Payment Record

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

Amendments

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

Defeasance

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

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

Default and Remedies

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

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

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

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion creditors and general principals of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15^{th}) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

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

Future Registration

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of $5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

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

Replacement Certificates

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

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by

DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

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

INVESTMENT POLICIES

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

Legal Investment

Under State law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (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, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through 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 Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer 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 Issuer, (c) 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 (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of 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; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset- backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

The Issuer 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 Issuer retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Issuer must do so by order, ordinance, or resolution. The Issuer is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a final stated 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 State 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 include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the Issuer's 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 must submit an investment report to the City Council detailing: (1) the investment position of the Issuer, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) the investment strategy expressed in the Issuer's investment policy, and (b) the Public Funds Investment Act. No person may invest Issuer funds without express written authority from the City Council.

Additional Provisions

Under State law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in said order 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 Issuer; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer

Current Investments [(1)] **TABLE 1**

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

Investment Type	Amount	Percentage
Cash, Money Markets, and Certificates of Deposit	$21,013,962.00	76.12%
Investment Pools	6,591,189.00	23.88%
Total	$27,605,151.00	100.00%

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

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(1) Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

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

Property Subject to Taxation by the Issuer

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

The voters of the State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision. On December 1, 2003, the City adopted an ordinance authorizing the "tax freeze."

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

Valuation of Property for Taxation

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

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

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

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

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

Residential Homestead Exemptions

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

1. An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. **The Issuer has elected to grant this exemption up to a maximum of $40,000.**

2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption $5,000. **The Issuer has elected not to grant this exemption.**

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

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from $5,000 to a maximum of $12,000.

A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran’s disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, 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% 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. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

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

Freeport Goods and Goods-In-Transit Exemption

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for “freeport property,” which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. State law requires governmental entities again to take affirmative action on or after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit to continue its taxation of goods-in-transit in the 2012 tax year and beyond. On December 17, 2011, the City Council took official action to continue its taxation of goods-in-transit in the tax year 2012 and beyond.

Pollution Control

Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

Tax Abatement

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

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

Economic Development Programs of Grants and Loans: The City is authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City reviews proposals on a case by case basis.

Issuer and Taxpayer Remedies

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

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

The Financial Institutions Act of 1989

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

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

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

Levy and Collection of Taxes

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

Issuer's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the Issuer may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the Issuer must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the City records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Property Assessment and Tax Payment

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on September 1.

TAX RATE LIMITATIONS

General

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

The Property Tax Code

Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the City Council must adopt a tax rate per $100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

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

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

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

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

The Property Tax Code provides certain cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Property Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election. In May 1994, voters authorized the additional one-half percent (1/2%) sales tax for the purposes of building City parks and improving existing City parks through the Watauga Parks Development Corporation. The Issuer has also authorized an additional one-half percent (1/2%) sales tax for a crime control district which was extended until 2021 by voters in November 2010. On May 12, 2012, the voters approved an Ordinance decreasing the sales and use tax benefiting the Parks Development Corporation to 1/4¢. Additionally, the voters adopted a local sales and use tax of 1/4¢ to provide revenues for the maintenance and repair of municipal streets. See Table 8 – Municipal Sales Tax in Appendix A.

TAX MATTERS

Tax Exemption

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

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

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

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

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

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

Tax Accounting Treatment of Discount and Premium on Certain Certificates

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

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

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

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

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

Qualified Tax-Exempt Obligations for Financial Institutions

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information".

Annual Reports

Under State law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 180 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request to City Secretary, 7105 Whitley Road, Watauga, Texas 76148 and upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general obligation type included in Table 1 of the Official Statement and in Tables 1 through 10 of APPENDIX A to this Official Statement, and in APPENDIX D. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2018. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

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

Availability of Information

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

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

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

On February 10, 2009, S&P upgraded the City's underlying unenhanced rating of "A+" to "AA" and the City did not file notice of this upgrade, but did so on July 1, 2014 (along with notice of its failure to file timely notice of this event). Though this filing indicated that the event and noncompliance filing related to a "material" event, the City makes no such representation as to materiality in this Official Statement, nor does it consider this a binding determination upon itself.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

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

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

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

Rating

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

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of Janney Montgomery Scott LLC, Philadelphia, Pennsylvania (the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net reoffering premium of $355,275.80, less a Purchaser's discount of $49,657.45, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

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

Information from External Sources

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

Concluding Statement

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

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

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

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

CITY OF WATAUGA, TEXAS

/s/ Patrick Shelbourne
Mayor
City of Watauga, Texas

ATTEST:

/s/ Zolaina Parker
City Secretary
City of Watauga, Texas

APPENDIX A

**FINANCIAL INFORMATION RELATING TO
THE CITY OF WATAUGA, TEXAS**

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION **TABLE 1**

2018 Actual Certified Market Value of Taxable Property (100% of Market Value)		$ 1,528,241,643
Less Exemptions:		
Optional Over-65 or Disabled	$ 56,528,417	
Veterans' Exemptions	7,548,139	
Pollution Control	6,471	
Open-Space Land and Timberland	670,462	
Absolute Exempt	103,386,337	
Misc. Personal Property	10,542,242	
Nominal Value	47,722	
TOTAL EXEMPTIONS		178,729,790
2018 Certified Assessed Value of Taxable Property		$ 1,349,511,853

Source: Tarrant Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of July 1, 2018)

General Obligation Debt Principal Outstanding	
General Obligation Refunding Bonds, Series 2006	$ 650,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	1,965,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011	3,585,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012	5,860,000
General Obligation Refunding Bonds, Series 2013	955,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	3,100,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	5,325,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	7,080,000
The Certificates	6,780,000
Total Gross General Obligation Debt	$ 35,300,000
Less: Self Supporting Debt	
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011 (47.84% Utility)	$ 1,715,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012 (100% Utility)	5,860,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (100% Utility)	7,080,000
Total Self-Supporting Debt	$ 14,655,000
Total Net General Obligation Debt Outstanding	$ 20,645,000
2018 Net Assessed Valuation	$ 1,349,511,853
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	2.62%
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	1.53%

Population: 2000 -21,908; 2010 - 23,497; est. 2018 - 23,600
Per Capita Certified Net Taxable Assessed Valuation - $57,182.71
Per Capita Gross General Obligation Debt Principal - $1,495.76

CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE **Table 2**

(As of September 30, 2017)

Note payable to the City of North Richland Hills annual installments of $19,785, including interest at 4.50%, maturing February 2021.	$ 70,982.00
Note payable to City of North Richland Hills annual installments of $63,068, including interest at 4.50%, maturing October 2024.	$ 371,640.00
Total Notes Payable	$ 442,622.00

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

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Table 3

Fiscal Year Ending (9/30)	Current Total Outstanding Debt[(1)]	The Certificates Principal	The Certificates Interest	The Certificates Total	Total Combined Debt Service	Less: Self Supporting Debt Service	Total Net Debt Service
2018	$ 3,361,807				$ 3,361,807	$ 1,260,788	$ 2,101,020
2019	3,158,149	$ 365,000	$ 230,641	$ 595,641	3,753,789	1,252,750	2,501,039
2020	3,155,944	390,000	242,440	632,440	3,788,384	1,253,925	2,534,459
2021	3,160,189	480,000	224,590	704,590	3,864,779	1,258,425	2,606,354
2022	3,156,901	310,000	204,840	514,840	3,671,741	1,252,175	2,419,566
2023	2,342,146	330,000	188,840	518,840	2,860,986	1,254,638	1,606,348
2024	2,136,989	245,000	174,465	419,465	2,556,454	1,255,638	1,300,816
2025	2,136,017	255,000	161,965	416,965	2,552,982	1,254,594	1,298,388
2026	2,131,797	265,000	148,965	413,965	2,545,762	1,251,488	1,294,274
2027	1,764,106	285,000	135,215	420,215	2,184,321	1,007,294	1,177,027
2028	1,503,613	300,000	120,590	420,590	1,924,203	1,012,038	912,165
2029	1,507,250	310,000	108,440	418,440	1,925,690	1,010,919	914,771
2030	1,504,766	320,000	98,990	418,990	1,923,756	1,009,013	914,743
2031	1,501,225	325,000	89,315	414,315	1,915,540	1,011,244	904,296
2032	1,501,575	335,000	79,415	414,415	1,915,990	1,007,613	908,378
2033	979,334	350,000	69,140	419,140	1,398,474	486,725	911,749
2034	984,672	360,000	58,220	418,220	1,402,892	488,750	914,142
2035	851,588	370,000	46,538	416,538	1,268,125	490,325	777,800
2036	850,222	380,000	34,350	414,350	1,264,572	491,450	773,122
2037	487,200	395,000	21,263	416,263	903,463	487,200	416,263
2038	-	410,000	7,175	417,175	417,175	-	417,175
Total	$ 38,175,487	$6,780,000	$ 2,445,396	$ 9,225,396	$47,400,882	$ 19,796,988	$ 27,603,895

(1) *Includes self-supporting debt.*

TAX ADEQUACY (Includes Self-Supporting Debt)

2018 Certified Net Taxable Assessed Valuation	$ 1,349,511,853	
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	3,864,779	*
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	$ 0.29223	*

* *Includes the Certificates.*

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest.

TAX ADEQUACY (Excludes Self-Supporting Debt)

2018 Certified Net Taxable Assessed Valuation	$ 1,349,511,853	
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	2,606,354	*
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	$ 0.19707	*

* *Includes the Certificates.*

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2017	$	537,076
2018 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce [1]		2,149,688
Total Available for General Obligation Debt	$	2,686,764
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/18		2,101,020
Estimated Surplus at Fiscal Year Ending 9/30/2018 [1]	$	585,745

[1] *Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment*

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of July 1, 2018)

	Principal Repayment Schedule			Principal	Percent of
Fiscal Year Ending 9-30	Currently Outstanding[a]	The Certificates	Total	Unpaid at End of Year	Principal Retired (%)
2018				$ 35,300,000	0.00%
2019	$ 2,325,000	$ 365,000	$ 2,690,000	32,610,000	7.62%
2020	2,395,000	390,000	2,785,000	29,825,000	15.51%
2021	2,480,000	480,000	2,960,000	26,865,000	23.90%
2022	2,550,000	310,000	2,860,000	24,005,000	32.00%
2023	1,800,000	330,000	2,130,000	21,875,000	38.03%
2024	1,650,000	245,000	1,895,000	19,980,000	43.40%
2025	1,705,000	255,000	1,960,000	18,020,000	48.95%
2026	1,760,000	265,000	2,025,000	15,995,000	54.69%
2027	1,445,000	285,000	1,730,000	14,265,000	59.59%
2028	1,225,000	300,000	1,525,000	12,740,000	63.91%
2029	1,265,000	310,000	1,575,000	11,165,000	68.37%
2030	1,300,000	320,000	1,620,000	9,545,000	72.96%
2031	1,335,000	325,000	1,660,000	7,885,000	77.66%
2032	1,375,000	335,000	1,710,000	6,175,000	82.51%
2033	885,000	350,000	1,235,000	4,940,000	86.01%
2034	915,000	360,000	1,275,000	3,665,000	89.62%
2035	805,000	370,000	1,175,000	2,490,000	92.95%
2036	825,000	380,000	1,205,000	1,285,000	96.36%
2037	480,000	395,000	875,000	410,000	98.84%
2038	-	410,000	410,000	-	100.00%
Total	$ 28,520,000	$ 6,780,000	$ 35,300,000		

[a] *Includes self-supporting debt.*

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2009-2018 — TABLE 4

	Net Taxable	Change From Preceding Year	
Year	Assessed Valuation	Amount ($)	Percent
2009-10	$ 1,007,779,216		
2010-11	971,784,583	(35,994,633)	-3.57%
2011-12	964,424,671	(7,359,912)	-0.76%
2012-13	958,898,123	(5,526,548)	-0.57%
2013-14	956,468,332	(2,429,791)	-0.25%
2014-15	1,016,667,348	60,199,016	6.29%
2015-16	1,031,936,059	15,268,711	1.50%
2016-17	1,099,930,546	67,994,487	6.59%
2017-18	1,204,339,182	104,408,636	9.49%
2018-19	1,349,511,853	145,172,671	12.05%

Source: Tarrant Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION **TABLE 5**

	2018	% of Total	2017	% of Total	2016	% of Total
Real, Residential, Single-Family	$ 1,246,483,663	81.56%	$ 1,112,977,112	81.36%	$ 994,096,828	80.74%
Real, Residential, Multi-Family	2,300,000	0.15%	12,800,000	0.94%	11,298,739	0.92%
Real, Vacant Lots/Tracts	6,858,338	0.45%	7,161,589	0.52%	5,718,005	0.46%
Real, Acreage (Land Only)	672,672	0.04%	462,462	0.03%	462,462	0.04%
Real, Commercial and Industrial	224,405,787	14.68%	187,218,346	13.69%	176,654,732	14.35%
Oil and Gas	137,420	0.01%	50,020	0.00%	234,460	0.02%
Real & Tangible, Personal Utilities	19,859,453	1.30%	17,931,336	1.31%	11,828,770	0.96%
Tangible Personal, Commercial &	24,579,307	1.61%	27,735,663	2.03%	29,165,121	2.37%
Personal, Mobile Home	13,884	0.00%	14,439	0.00%	16,036	0.00%
Residential Inventory	1,424,500	0.09%	-	0.00%	-	0.00%
Real Property, Inventory	1,506,619	0.10%	1,574,238	0.12%	1,698,642	0.14%
Total Appraised Value	$ 1,528,241,643	100.00%	$ 1,367,925,205	100.00%	$ 1,231,173,795	100.00%
Less:						
Optional Over-65 or Disabled	$ 56,528,417		$ 53,157,524		$ 50,467,801	
Veterans' Exemptions	7,548,139		5,914,442		4,105,060	
Pollution Control	6,471		7,812		7,812	
Open-Space Land and Timberland	670,462		460,252		460,348	
Absolute Exempt	103,386,337		104,041,726		76,029,621	
Low-Income Housing Loss	-		-		112,329	
Misc. Personal Property	10,542,242		-		-	
Nominal Value	47,722		4,267		60,278	
Net Taxable Assessed Valuation	$ 1,349,511,853		$ 1,204,339,182		$ 1,099,930,546	

Source: Tarrant Appraisal District

PRINCIPAL TAXPAYERS **TABLE 6**

Name	**Type of Business/Property**	**2017 Net Taxable Assessed Valuation**	**% of 2017 Assessed Valuation**
Inland Western Watauga LP	Shopping Mall	$ 34,309,861	2.85%
Watauga Town Crossing LLC	Apartments	24,900,360	0.02067554
Brookwillow Watauga LLC	Apartments	13,750,000	1.14%
Park Vista Townhomes	Apartments	10,800,000	0.90%
Dayton Hudson Corp	Retail Center	9,394,160	0.78%
Oncor Electric Delivery Co LLC	Electric Utility	7,286,176	0.60%
Watauga All Storage LTD	Storage Units	6,451,896	0.54%
Brooks Crossing SC LTD	Shopping Center	5,097,973	0.42%
Southwestern Bell	Phone Utility	5,016,750	0.42%
Target Stores	Retail	4,741,200	0.39%
		$ 121,748,376	10.11%

Source: Tarrant Appraisal District

TAX RATE DISTRIBUTION **TABLE 7**

	2017	2016	2015	2014	2013
General Fund	$ 0.419650	$ 0.423017	$ 0.440171	$ 0.412887	$ 0.410500
I&S Fund	0.182138	0.195394	0.178547	0.178329	0.180700
Total Tax Rate	$ 0.601788	$ 0.618411	$ 0.618718	$ 0.591216	$ 0.591200

Source: Tarrant Appraisal District

TAX DATA **TABLE 8**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalities and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at at rate of one prcent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections Current	% of Collections Total	Year Ended
2007	$ 1,016,310,353	$ 0.580763	$ 5,933,252	98.55	99.35	9/30/2008
2008	1,027,284,114	0.580763	6,005,207	99.12	99.75	9/30/2009
2009	1,007,779,216	0.580763	5,974,330	99.04	99.59	9/30/2010
2010	971,784,583	0.580763	5,677,298	99.07	99.61	9/30/2011
2011	964,424,671	0.589001	5,680,471	100.54	101.29	9/30/2012
2012	958,898,123	0.580763	5,568,926	100.51	101.16	9/30/2013
2013	956,468,332	0.591200	5,654,641	98.93	99.42	9/30/2014
2014	1,016,667,348	0.591216	6,010,700	98.21	99.10	9/30/2015
2015	1,031,936,059	0.618718	6,384,774	97.38	97.80	9/30/2016
2016	1,099,930,546	0.618411	6,802,091	99.83	100.17	9/30/2017
2017	1,204,339,182	0.601788	7,247,569	95.97	96.25	9/30/2018*
2018	1,349,511,853					

Source: Tarrant Appraisal District

* *As of July 1, 2018.*

MUNICIPAL SALES TAX COLLECTIONS **TABLE 9**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The City's total sales tax rate is 2%. 1% of the tax is for the General Fund, ½ percent for economic development, ¼% for street maintenance, and ¼% for the crime control district. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy (1)	Equivalent of Ad Valorem Tax Rate	Crime Control District
2007	$ 3,825,681	64.48%	$ 0.3764	$ 1,175,390
2008	3,900,318	64.95%	0.3797	1,192,935
2009	3,693,017	61.81%	0.3665	1,132,125
2010	3,923,807	69.11%	0.4038	1,153,505
2011	4,332,013	76.26%	0.4492	1,380,940
2012	4,349,875	78.11%	0.4536	1,451,347
2013	4,203,680	74.34%	0.4395	1,397,990
2014	4,452,920	74.08%	0.4380	1,477,698
2015	4,650,930	72.84%	0.4507	1,544,160
2016	4,320,708	63.52%	0.3928	1,432,773
2017	4,298,869	59.31%	0.3569	1,429,767
2018	2,170,501	(As of July 2018)		714,048

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

OVERLAPPING DEBT INFORMATION

(As of July 1, 2018)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 07/01/2018)	% Overlapping	Amount Overlapping
Birdville ISD	$ 253,562,467	7.81%	$ 19,803,229
Keller ISD	703,663,524	2.84%	19,984,044
Tarrant County	321,795,000	0.82%	2,638,719
Tarrant County Hospital District	19,300,000	0.82%	158,260
Total Gross Overlapping Debt			$ 42,584,252
Watauga, City of			$ 35,300,000 *
Total Gross Direct and Overlapping Debt			$ 77,884,252 *
Ratio of Gross Direct Debt and Overlapping Debt			5.77% *
Per Capita Gross Direct Debt and Overlapping Debt			$3,300.18 *

Note: The above figures show Gross General Obligation Debt for the City of Watauga, Texas. The Issuer's Net General Obligation Debt is $20,645,000*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	$ 63,229,252 *
Ratio of Net Direct and Overlapping Debt to 2018 Net Assessed Valuation	4.69% *
Per Capita Net Direct and Overlapping Debt	$2,679.21 *

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

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES — TABLE 10

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

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Fund Balance - Beginning of Year	$ 5,476,752	$ 5,842,997	$ 6,036,710	$ 5,541,706	$ 5,645,602
Revenues	$ 11,310,439	$ 11,197,358	$ 11,019,096	$ 10,651,762	$ 10,170,081
Expenditures	12,126,031	11,482,081	11,162,668	10,511,858	10,509,074
Excess (Deficit) of Revenues Over Expenditures	$ (815,592)	$ (284,723)	$ (143,572)	$ 139,904	$ (338,993)
Other Financing Sources (Uses):					
Proceeds from sale of Assets	$ 8,880	$ 40,975	$ 17,589	$ 22,531	$ 13,076
Operating Transfers In	522,792	436,381	434,270	532,569	534,221
Operating Transfers Out	(661,000)	(558,878)	(502,000)	(200,000)	(312,200)
Total Other Financing Sources (Uses):	$ (129,328)	$ (81,522)	$ (50,141)	$ 355,100	$ 235,097
Fund Balance - End of Year	$ 4,531,832 [1]	$ 5,476,752	$ 5,842,997	$ 6,036,710	$ 5,541,706

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

[1] General Fund balance was drawn down due to budgeted one-time expeditures for equipment replacement and capital projects including security enhancements at City owned facilities. City administration expects to end the fiscal year ending September 30, 2018 with an unaudited General Fund balance of approximately $4,500,000. The City intends to maintain its General Fund balance above its formal policy requirement of 25% operating expenditures.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2017 Assessed Valuation	% of Actual	2017 Tax Rate
Birdville ISD	$ 9,609,857,817	100%	$ 1.454000
Keller ISD	17,285,855,079	100%	1.520000
Tarrant County	173,599,602,263	100%	0.244000
Tarrant County Hospital District	173,702,738,366	100%	0.224000

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

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

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Birdville ISD	11/4/2014	School Building	$ 163,200,000	$ 154,200,000	$ 9,000,000
Keller ISD	None				
Tarrant County	5/13/2006	County Buildings	$ 433,120,000	$ 418,120,000	$ 15,000,000
	8/8/1998	Justice Center	$ 94,300,000	$ 78,700,000	$ 15,600,000
Tarrant County Hospital District	None				

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

The City of Watauga, Texas participates as one of 866 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 payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

Employee Deposit Rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Employees Covered by Benefit Terms

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	89
Inactive employees entitled to but not yet receiving benefits	158
Active employees	163
Total	410

Contributions

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

Employees for the City were required to contribute 7.00 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.32 percent and 13.90 percent in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017 were $1,259,325, 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	2.50% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expenses, 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 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table 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, 2015 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 charges were made for the 2015 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Boars 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

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.

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	$ 42,855,824	$ 35,942,184	$ 6,913,640
Changes for the year:			
Service cost	1,513,714	-	1,513,714
Interest (on the Total Pension Liability)	2,907,277	-	2,907,277
Difference between expected and actual experience	(570,355)	-	(570,355)
Changes of assumptions	-		
Contributions - employer	-	1,197,145	(1,197,145)
Contributions - employee	-	636,779	(636,779)
Net investment income	-	2,428,960	(2,428,960)
Benefit payments, including refunds of employee	(1,083,810)	-	(1,083,810)
contributions	-	(1,083,810)	1,083,810
Administrative expense	-	(27,433)	27,433
Other	-	(1,478)	1,478
Balance at 12/31/2016	$ 45,622,650	$ 39,092,347	$ 6,530,303

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

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

1% Decrease 6.00%	Current Single Rate Assumption 7.00%	1% Increase 8.00%
$ 13,659,655	$ 653,030	$ 775,704

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2017 the city recognized pension expense of $1,639,580.

At September 30, 2016, 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
Difference in expected and actual experience	-	$ 649,020
Difference in assuption changes	$ 28,444	
Difference in projected and actual earnings on pension plan investments	1,608,113	-
Employer contributions made after the measurement date	898,914	-
Totals	$ 2,535,471	$ 649,020

$898,914 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows(Inflows) of Resources
2018	$ 265,428
2019	373,880
2020	348,802
2021	(573)
Total	$ 987,537

OTHER POSTEMPLOYMENT BENEFITS

In fiscal year 2009, the City implemented Governmental Accounting Standards Board ("GASB") Statement 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("OPEB") prospectively.

Supplemental Death Benefits Plan

Plan Description

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"). See Note 6 or information on accessing the comprehensive annual financial report for TMRS. 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 OPEB.

Funding Policy

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. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net position available for OPEB.

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently 0.01% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Contributions are made monthly based on covered payroll of employee members of the City. The City contributes to the SDBF at the contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The City's contribution rates for the last three calendar/plan years are as follows:

Schedule of Contribution Rates (Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2014	0.15%	0.15%	100%
2015	0.14%	0.14%	100%
2016	0.16%	0.16%	100%

The City's contributions to the TMRS SDBF for the years 2017, 2016, and 2015 were $15,326, $13,951, and $12,607, respectively, which equaled the required contributions each year.

UTILITY PLANT IN SERVICE — TABLE 11

(As of September 30, 2017)

Land	$ 91,000
Construction in Progress	8,937,551
Buildings	3,353,778
Equipment	1,920,229
Street and Drainage Improvements	16,812,075
Waterworks and Sanitary Sewer System	16,703,935
Total	$ 47,818,568
Less: Accumulated Depreciation	(15,624,432)
Net Property, Plant and Equipment	$ 32,194,136

Source: The Issuer's Comprehensive Annual Financial Report.

WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT — TABLE 12

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

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Revenues	$ 8,285,528	$ 8,685,674	$ 7,895,845	$ 7,894,781	$ 8,159,949
Expenses	6,193,060	6,681,027	6,525,584	5,701,192	5,653,410
Net Revenue Available for Debt Service	$ 2,092,468	$ 2,004,647	$ 1,370,261	$ 2,193,589	$ 2,506,539

Source: The Issuer's Annual Financial Reports.

WATER RATES — TABLE 13

Rates Effective December 1, 2015

1. Billing policy where only one user or building is tied to the same meter:

The monthly bill will be computed as follows: The minimum bill taken from Schedule A plus a volume charge of $4.91 per 100 cubic feet on monthly volume greater than the minimum volume from Schedule A for all customers except those customers who have attained the age of 65 and reside in owner occupied property within the City of Watauga.

The monthly bill for customers meeting the above requirements will be computed as follows: The minimum bill shall be $12.42 plus a volume charge of $4.34 per 100 cubic feet on monthly volume greater than the minimum volume from Schedule A as set forth in the fee schedule in the appendix of this code.

Schedule A

Meter Size (Inches)	¾"	1"	1-1/4"	1-1/2"	2"	3"	4"	6"/8"
Minimum Bill	$14.20	$19.76	$26.83	$56.26	$73.53	$135.66	$226.09	$578.49
For the First: (cubic feet)	267	345	460	937	1,300	2,400	4,000	10,000

2. Billing policy where more than one user or building is tied onto the same water meter:

   It shall be the policy of Watauga to bill each home, homes, duplex, triplex, offices, or any other buildings where more than one user is tied onto the same water meter at $14.20 per month for each customer unit for water plus a monthly volume charge of $4.91 per 100 cubic feet of water used by the building.

3. Billing for apartment complexes and mobile home parks:

a. $14.20 per month per apartment or mobile home plus a monthly volume charge of $4.91 per 100 cubic feet of water used by the apartment complex or parks.

b. Apartment or mobile home part owner shall furnish a certified statement of occupancy prior to the 10th of each month. Failure to file occupancy statement will result in billing for 100% occupancy.

Rates Effective July 1, 2018:

Sewer rates are based n winter average water use for exisiting residential customers. New residential customers will have a base rate of 900 cubic feet until a winter average can be established. Rates are $15.86 base plus volume at $2.90 per 100 cubic feet.

Senior rates are $11.34 base plus volume at $2.48 per 100 cubic feet.

Commercial rates are baed on actual usage (no winter average) at the regular residential rates of $15.86 base plus volume at $2.90 per 100 cubic feet.

Drainage rates are $11.00 per household with a corresponding increase for commercial customers

Residential and Commercial 3/4 Inch Rates

Amount of Water	Base Rate
0 to 267 cubic feet of water	$14.20
Per 100 cubic feet	$4.91

Other Commercial Meters Utilize These Same Rates but with the following Base Amounts

Amount of Water	Base Rate	
1 inch meter 0-345 cubic feet of water	$	19.76
1.25 inch meter 0-460 cubic feet of water	$	26.83
1.5 inch meter 0-937 cubic feet of water	$	56.26
2 inch meter 0-1,300 cubic feet of water	$	73.53
3 inch meter 0-2,400 cubic feet of water	$	135.66
4 inch meter 0-4,000 cubic feet of water	$	226.09
6 and 8 inch meters 0-10,000 cubic feet of water	$	578.49

Senior Citizen Rates

Amount of Water	Base Rate	
0-267 cubic feet of water	$	12.42
per 100 cubic feet	$	4.34

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF WATAUGA AND TARRANT COUNTY, TEXAS

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GENERAL INFORMATION REGARDING THE CITY OF WATAUGA, TEXAS AND TARRANT COUNTY, TEXAS

The City of Watauga, Texas (the "City" or "Issuer") is located in Tarrant County, Texas, 10 miles northeast of downtown Fort Worth, Texas and 25 miles northwest of downtown Dallas, Texas. The City's corporate boundary comprises a total of approximately 4 square miles. Officially founded in 1877 when the Texas and Pacific Railroad came to town, "Watauga" in Cherokee means either "Beautiful Stream," "Valley of the Happy Spring," or "Village of Land of Many Springs."

The City's Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and last amended May 11, 2013. The City operates under a Mayor-Council-Manager form of government, with the City Council comprised of eight members including the Mayor. The City Council is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, as well as members of boards and commissions. The City Manager is responsible to the Council for appointing and supervising employees of the City (except for those appointed by the Council), and for preparing and administering the annual budget and capital improvement program.

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings.

Economy

The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The twelve county Dallas-Fort Worth Metroplex has a total population of almost 6.9 million people, making it the largest metropolitan area in the South and the fourth-largest in the United States. This area has experienced population growth of 8.2% since 2010. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrates its 42nd anniversary in 2016, covers approximately twenty-seven square miles and represents one of the larges facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over $37 billion to the local economy.

Economic and Demographic Information

Year	Population	Per Capita Personal Income	Unemployment Rate
2001	22,000	21,703	2.5
2002	23,000	21,703	3.4
2003	23,750	21,616	3.7
2004	23,750	22,681	3.0
2005	23,850	23,767	2.7
2006	23,950	24,122	3.0
2007	24,100	23,350	4.1
2008	24,250	24,407	3.3
2009	24,350	24,407	4.9
2010	23,250	24,407	8.1
2011	23,497	22,593	8.5
2012	23,497	22,530	7.9
2013	23,331	23,307	7.0
2014	23,510	22,809	5.8
2015	23,500	23,846	5.0
2016	23,600	25,147	4.1
2017	24,228	24,417	4.1

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

TARRANT COUNTY, TEXAS

Tarrant County, Texas (the "County") is an urban county located in the north central part of Texas with approximately 1,991,639 citizens. The City of Fort Worth, Texas which began as an army post in 1849 serves as the county seat. The County is one of the fastest growing urban counties in the United States today. Twenty-five other incorporated cities are located wholly within the County, and seven other incorporated county-line cities are located largely within the County's boundaries. The twelve county Dallas-Fort Worth Metroplex has a total population of almost 6.9 million people, making it the largest metropolitan area in the South and the fourth-largest in the United States.

The County's roots lie in the 'Old West' and much of its heritage can be traced to the era of the cowboy and cattle drives that passed through the County. The County is one of 254 counties in Texas which were originally set up by the State of Texas to serve as decentralized administrative divisions providing state services and collecting state taxes.

The County has changed dramatically over the past few years. Once dependent on defense plants and its military base, the County's economy has been transformed into one of the most vibrant and diverse in the nation and is leading the regional resurgence in business relocations and expansions, retail development and new housing construction. Once tied to the oil rigs and cattle ranches of west Texas, the County's businesses today reach around the globe and the County's commercial and industrial airports are among the country's foremost international gateways.

The advantages that the County offers – a low cost of living, a central location, a mild climate, an outstanding transportation network, an educated, dynamic and adaptable work force, a vigorous "can do" business attitude and a long and effective tradition of cooperation between government and business – have made the County one of the fastest growing economies in the nation.

Principal Employers

Employer	Entity	2017 Employees	2017 Percentage of Total Tarrant County Employment
AMR Corp./American Airlines	Commercial Airline	30,000	2.99%
Lockheed Martin Aeronautics Company	Aircraft Manufacturer	13,400	1.33%
Fort Worth Independent School District	School District	12,000	1.19%
Texas Health Resources	Health Care	12,000	1.19%
NAS Fort Worth JRB	Naval Station	9,700	0.97%
Arlington Independent School District	School District	8,500	0.85%
University of Texas at Arlington	Higher Education	7,548	0.75%
JPS Health Network	Health Care	6,500	0.65%
City of Fort Worth	Municipal Government	6,161	0.61%
Cook Children's Health Care System	Health Care	6,072	0.60%

Source: Tarrant County audited financial statements for fiscal year ended September 30, 2017.

Principal Taxpayers

Fiscal Year 2017		
Taxpayer	Taxable Assessed Value	Percentage of Taxable Assessed Value
Oncor Electric Delivery	$1,104,560,947	0.68
American Airlines Inc	914,365,256	0.56
Alcon Laboratories Inc	603,391,911	0.37
Wal-Mart Real Estate Bus. Trust	551,430,061	0.34
Bell Helicopter Textron Inc	426,308,448	0.26
General Motors LLC	395,096,477	0.24
Atmos Energy/Mid Tex Division	391,051,446	0.24
Mouser Electronics	370,536,067	0.22
Winner LLC	368,973,812	0.22
Dallas MTA LP	297,653,461	0.18

Source: Tarrant County Appraisal District.

Museums

The Amon Carter Museum was established by Amon G. Carter, Sr. (1879-1955), and opened in 1961 to house his collection of four hundred paintings, drawings, and sculptures by Frederic Remington and Charles M. Russell, the single most important collection of works by these artists. The Amon Carter Museum collects, preserves and exhibits a wide range of nineteenth and early twentieth-century American paintings, prints, and sculptures as well as one of the finest collections of American photography from the early days to the present.

The Kimbell Art Museum has long been considered the finest small museum in the United States. Its holding range in period from antiquity to the 20th century including masterpieces by Fra Angelico, El Greco, Caravaggio, La Tour, Velasquez, Rembrandt, Houdon, Goya, David, Delacroix, Cezanne, Mondrian, Picasso, Matisse, Holbein and Vigee Le Brun. The museum is one of the only institutions in the Southwest with a substantial collection of Asian arts and has also assembled small but select groups of Mesoamerican, African and Mediterranean antiquities. The Kimbell is the site of choice for many traveling shows and exhibits.

Parks and Lakes

The region's many parks and lakes offer everything from public trails for horseback riding, hiking and rollerblading to lectures and guided tours of the area's natural sanctuaries. There are over 20 public and private golf courses. There are ten lakes, all or partly located in the County, covering over 100,000 acres. County residents have access to numerous other lakes throughout the region and camping is available at several state parks within the North Texas region.

Labor Force Statistics (1)

	2018 (2)	2017 (3)	2016 (3)	2015 (3)
Civilian Labor Force	1,059,388	1,033,317	1,009,291	990,682
Total Employed	1,023,616	995,339	969,161	949,513
Total Unemployed	35,772	37,978	40,130	41,169
% Unemployment	3.4%	3.7%	4.0%	4.2%
Texas Unemployment	3.7%	4.3%	4.6%	4.4%

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

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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FINAL

IN REGARD to the authorization and issuance of the "City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018" (the *Certificates*), dated September 1, 2018 in the aggregate principal amount of $6,780,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Watauga, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of $5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2019 through 2038, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

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

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

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

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

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

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL SATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017

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

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor Pro Tem and
Members of City Council
City of Watauga, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor Pro Tem and
Members of City Council
City of Watauga, Texas

Opinions

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

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 11, pension information on pages 49 to 50, and budgetary comparison information on pages 51 to 52, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, and historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The information in the introductory section and statistical section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Whitley Penn LLP

Houston, Texas
February 16, 2018

On behalf of City Council, we, as management of the City of Watauga, offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2017. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages i-vii and pages 73-93 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

Financial Highlights – See Tables 1-4 and Figures 1-2 in Appendices

- At September 30, 2017, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by $71,053,994 (Net position). The vast majority of the City's net position of $60,881,667 (85.7%) is net investment in capital assets and that most capital assets in government do not directly generate revenue nor can they be sold to generate liquid capital. The net position for specific purposes totaled $498,538 (0.7%). The remaining $9,673,789 (13.6%) is unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased $2,227,045 from the prior year.

- Governmental activities realized an increase in total net position of $682,134 and business-type activities realized an increase in total net position of $1,263,238 bringing the total increase in net position for the City to $1,945,372.

- Total Governmental Funds ending balance was $14,689,918, a decrease of $2,833,203 in comparison to the prior year. This was due primarily to construction projects completed during the fiscal year. The Unassigned General Fund balance is $4,490,902 or 37% of total General Fund expenditures.

- The City's total capital assets (net of accumulated depreciation) increased by $3,613,513 which is primarily attributed to completion of capital improvement projects and other asset additions exceeding current year depreciation expense and asset retirements.

- The City's total long-term debt increased by $5,403,009, or 18.3%, due to an issuance of Certificates of Obligation in the amount of $7,325,000 for capital improvements less scheduled principal payments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage system activities.

The government-wide financial statements include not only the City of Watauga, itself (known as the primary government), but also include the Watauga Parks Development Corporation (WPDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and an (3) internal service.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains fifteen individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General, and Debt Service funds, which are considered to be major funds. Data from the other thirteen governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary Funds. The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for some of its equipment replacement. Because these services predominately benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Water/Sewer and Drainage, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18-22 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary Information (RSI) can be found on pages 49-52 of this report.

The combining statements referred to earlier in connection with non major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 56-69 of this report.

Government-Wide Financial Analysis

Total Assets of the City are $113,799,754. Capital assets, net of depreciation, represent the largest portion of the City's assets ($80,264,780, or 70.5%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2017, the City of Watauga's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $71,053,994 (Net Position).

The City's Net Investment in Capital Assets is $60,881,667. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is $498,538, or 0.7% of total net position, and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted

($9,673,789 or 13.6%) and may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, there was an increase of $1,945,372 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed an increase of $682,134, while Business-type activities showed an increase of $1,263,238 as a result of the City's operations.

Table 1

Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 18,054,150	$ 20,417,837	$ 15,480,824	$ 9,804,999	$ 33,534,974	$ 30,222,836
Capital assets	48,070,644	46,338,528	32,194,136	30,312,739	80,264,780	76,651,267
Total Assets	66,124,794	66,756,365	47,674,960	40,117,738	113,799,754	106,874,103
Deferred outflows of resources	2,134,238	2,620,438	401,233	498,980	2,535,471	3,119,418
Long-term liabilities outstanding	24,038,210	26,059,005	17,404,704	10,364,237	41,442,914	36,423,242
Other liabilities	1,368,255	1,351,958	1,821,042	2,703,477	3,189,297	4,055,435
Total Liabilities	25,406,465	27,410,963	19,225,746	13,067,714	44,632,211	40,478,677
Deferred inflows of resources	546,349	341,756	102,671	64,466	649,020	406,222
Net position:						
Net investment in capital assets	36,839,508	36,945,402	24,042,159	24,344,617	60,881,667	61,290,019
Restricted	498,538	371,859	-	-	498,538	371,859
Unrestricted	4,968,172	4,306,823	4,705,617	3,139,921	9,673,789	7,446,744
Total Net Position	$ 42,306,218	$ 41,624,084	$ 28,747,776	$ 27,484,538	$ 71,053,994	$ 69,108,622

As of September 30, 2017, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities total increase in net position was $682,134 or 1.6% increase from the prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by $718,508 or 4.3% from the prior year, while expenses increased by $122,159 or 0.7%.
- Transfers from Business-Type Activities increased by $62,798. Transfers in were sufficient to cover the expenses by $165,439.

Business-type activities. Business-type activities increased the City's net position by $1,263,238, or 4.6% increase from the prior year.

Significant changes from the prior year include:

- Increase in long term liabilities outstanding by $7,040,467, or 67.9% due to issuance of $7,325,000 in certificates of obligation during the fiscal year.
- Total revenues decreased by $376,893 due to a decrease in water consumption.
- Total expenses decreased by $275,502. This was due primarily to an decrease in water and sewer expenses of $299,465.

Table 2

Statement of Change in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Fees, fines and charges for services	$ 2,998,767	$ 3,055,509	$ 9,626,419	$ 10,070,916	$ 12,625,186	$ 13,126,425
Operating grants and contributions	16,111	35,537	-	-	16,111	35,537
General revenue						
Property taxes	7,022,618	6,246,763	-	-	7,022,618	6,246,763
Sales taxes	5,814,302	5,868,069	-	-	5,814,302	5,868,069
Franchise taxes	1,003,842	1,114,190	-	-	1,003,842	1,114,190
Payment in lieu of taxes	457,222	370,897	-	-	457,222	370,897
Penalties and interest	39,561	32,295	-	-	39,561	32,295
Interest on investments	152,516	68,650	103,443	43,863	255,959	112,513
Miscellaneous revenue	9,439	3,960	8,154	130	17,593	4,090
Total Revenues	17,514,378	16,795,870	9,738,016	10,114,909	27,252,394	26,910,779
Expenses						
General government	3,486,528	6,107,863	-	-	3,486,528	6,107,863
Public safety	5,845,630	6,029,558	-	-	5,845,630	6,029,558
Culture and recreation	5,095,575	3,724,218	-	-	5,095,575	3,724,218
Public works	2,472,838	987,328	-	-	2,472,838	987,328
Interest on long-term debt	448,368	377,813	260,838	282,538	709,206	660,351
Water and sewer	-	-	6,718,776	7,018,241	6,718,776	7,018,241
Drainage Utility	-	-	978,469	932,806	978,469	932,806
Total Expenses	17,348,939	17,226,780	7,958,083	8,233,585	25,307,022	25,460,365
Increase (decrease) in net position before transfers	165,439	(430,910)	1,779,933	1,881,324	1,945,372	1,450,414
Transfers	516,695	453,897	(516,695)	(453,897)	-	-
Increase (decrease) in net position after transfers	682,134	22,987	1,263,238	1,427,427	1,945,372	1,450,414
Net position - beginning	41,624,084	41,601,097	27,484,538	26,057,111	69,108,622	67,658,208
Net position - ending	$ 42,306,218	$ 41,624,084	$ 28,747,776	$ 27,484,538	$ 71,053,994	$ 69,108,622

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of $14,689,918, which is a decrease of $2,833,203 from the prior year. Unassigned fund balance is $4,490,902 or 31% of the total governmental fund balance. Unassigned fund balance is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories ($20,440) and prepaid items ($27,689), 2) restricted for capital acquisitions and contractual obligations ($5,919,345), retirement of fund indebtedness ($539,900), culture and recreation ($838,576), public works ($1,084,390) and public safety ($1,768,676).

The general fund is the primary operating fund of the City. The fund balance has decreased by a net $944,919 over the prior year, to $4,531,833. This was less than the budgeted decrease of $1,228,031 due to expenditures coming in less than budgeted for most departments.

The G.O. Debt Service fund balance increased by $141,884 over the prior year, to $537,076 as a result of a decrease in interest and other charges related to debt service.

Other Governmental Funds showed a $554,426 increase in fund balance from the prior year. This was primarily due to increase in revenue and decrease in expenditures in the Street Maintenance Sales Tax Fund.

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

Unrestricted net position of the respective proprietary funds are Water/Sewer at $1,609,081 and Drainage Utility at $3,096,536. The proprietary funds had a combined net position increase of $1,263,238 as a result of operations. The Water/Sewer fund had an increase in the net position of $878,786, while the Drainage Utility fund had a net position increase of $394,046 as a result of operations. The adjustments for consolidation of the Internal Service fund included a loss of $9,594.

Budgetary Highlights

Actual total general fund expenditures were significantly under budget for FY 2017. There was an overall positive variance with final budget for the General Fund of $283,112. A major component in this positive variance was lower than forecasted expenditures of $590,645.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2017, amount to $80,264,780 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was 0.7%. This was primarily from purchase of new assets with proceeds from bonds issued during the prior fiscal years.

Major capital asset events during the fiscal year included the following:

- Projects that began in FY2017 that were added to Construction in Progress include the following:
    - Bursey Road, Phase II in the amount of $521,692
    - Whitley Road, Phase I, II in the amount of $798,901
    - The Green Ribbon Project, an initiative to improve and beautify the corridor along Highway 377 in the amount of $25,460
    - Starnes Road Water Main project in the amount of $20,680
    - Parks projects to include a splashpad and other parks projects such as the Capp Smith Park retaining wall in the amount of $34,792
- Projects than were continued in FY2017 from prior years and were not complete as of 9/30/2017 include:
    - Senior Center project increased by $1,845,868 bringing the total CIP for this project to $2,250,700.
    - Wastewater infrastructure improvements in the South part of the City continued this fiscal year and were near completion at the end of FY2017. The amount added to CIP this year is $1,586,227, bringing the total CIP for this project to $7,069,648.
    - Watauga Heights Drainage project increased by $186,752, bringing the total CIP for this project to $1,521,770.
- Projects that were included in Construction in Progress in FY2016 which were completed this fiscal year include the following:
    - Wastewater Improvements, Community Development Block Grant project in the amount of $236,467

- Other projects that were completed in FY2017 include:
  - Infrastructure improvements (street overlays, sidewalks) in the amount of $182,382
  - Chapman Road Street resurfacing project in the amount of $647,471
  - Parks projects to include a playground shade structure at Foster Village park and playground equipment at Birdville Park in the amount of $44,000 and sidewalk repairs at Capp Smith Park in the amount of $10,237
  - Continuation of Storm Drain Channel Improvement program in the amount of $16,819
  - Security enhancement updates City-wide in the amount of $187,349

Additional information on the City's capital assets can be found in Note 3 of this report.

Table 3

Statement of City of Watauga's Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Land	$ 19,019,600	$ 19,019,600	$ 91,000	$ 91,000	$ 19,110,600	$ 19,110,600
Construction in progress	3,338,105	521,804	8,937,551	6,753,473	12,275,656	7,275,277
Buildings and improvements	14,597,608	14,940,234	2,227,491	2,291,166	16,825,099	17,231,400
Improvements other than buildings	366,706	374,982	-	-	366,706	374,982
Equipment	3,381,729	3,616,449	744,400	858,740	4,126,129	4,475,189
Drainage improvements	-	-	7,657,685	7,976,357	7,657,685	7,976,357
Infrastructure	7,366,896	7,865,459	-	-	7,366,896	7,865,459
Waterworks and sanitary sewer system	-	-	12,536,009	12,342,003	12,536,009	12,342,003
Total Capital Assets	$ 48,070,644	$ 46,338,528	$ 32,194,136	$ 30,312,739	$ 80,264,780	$ 76,651,267

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of 18.3%. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and $442,622 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by $34,912,611, which was mainly due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligations, Series 2017.

Additional information on the City's long-term debt can be found in Note 4.

Table 4

Statement of City of Watauga's Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2017	2016	2017	2016	2017	2016
General obligation bonds	$ 2,335,000	$ 3,045,000	$ 7,325,000	$ -	$ 9,660,000	$ 3,045,000
Certificates of obligation	13,195,000	14,120,000	8,090,000	8,595,000	21,285,000	22,715,000
Notes payable	442,622	502,847	-	-	442,622	502,847
Compensated absences payable	2,262,480	2,244,651	370,519	321,634	2,632,999	2,566,285
Unamortized bond premium	308,685	329,067	583,305	351,403	891,990	680,470
	$ 18,543,787	$ 20,241,565	$ 16,368,824	$ 9,268,037	$ 34,912,611	$ 29,509,602

Economic Factors and Next Year's Budgets and Rates

Over the last couple of years, the City has experienced growth in property valuations. In FY2016-17, the City's valuations have increased by 12.5% in comparison to FY2015-16. In FY2017-18, valuations increased by 9.5% from last year's valuations. This increase in valuations will allow the City to have operational funds for programs and cover operational increases without increasing the preceding year's tax rate. The tax rate for FY2017-18 was set at $0.601788 per $100 of assessed valuation, which is a $0.0166 decrease from last year's rate.

A significant portion of the city's general operating revenue is derived from sales tax. Over the past several years, the City has experienced a decrease in sales tax revenues. During FY2015-16 and FY2016-17, the City's sales tax revenues decreased by 8% cumulatively from FY2014-15 actuals. We are forecasting a decrease of 1.6% in the FY2017-18 budget compared to FY2016-17 budget. We believe this sales tax decline is attributable to retail growth in surrounding areas that negatively impacted the number of potential shoppers in our City. The City's Economic Development Division is continuing their efforts to bring in high quality visually appealing businesses, as well as revitalize and invest in areas that have seen some deterioration of economic activity. Efforts to maintain and grow our sales tax base continue to be a high priority.

Many capital improvement projects are underway in the City at this time. Several major water/wastewater system infrastructure projects are planned in the 5-year Capital Improvement Plan as well as significant improvements to our storm water drainage system. The Wastewater Phase I and Phase II projects are currently in progress and were near completion at the end of FY2016-17. In FY2016-17, the City issued new Utility Fund debt in the amount of $7.325 million to fund water and wastewater projects over the next several years.

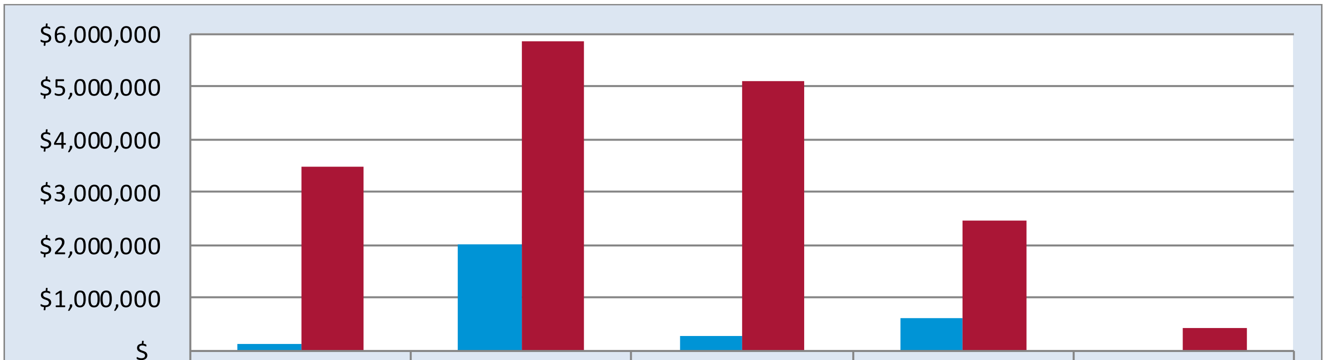
The 2014 and 2016 General Fund debt issuances provided funds for Bursey Road Phase I and II. Phase I was completed in FY2015-16 and Phase II began in the summer of 2017. The Senior Center expansion project that will better meet the needs of our citizens was near completion at the end of FY2016-17. The 2016 debt issuance also provides funding for other street and park projects. Quality of life projects such as a splash pad and trail system are being considered at this time.

Request for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Sandra Gibson, CGFO, CGFM, Director of Finance and Administration by phone at 817-514-5822, or by email at sgibson@cowtx.org.

Figure 1

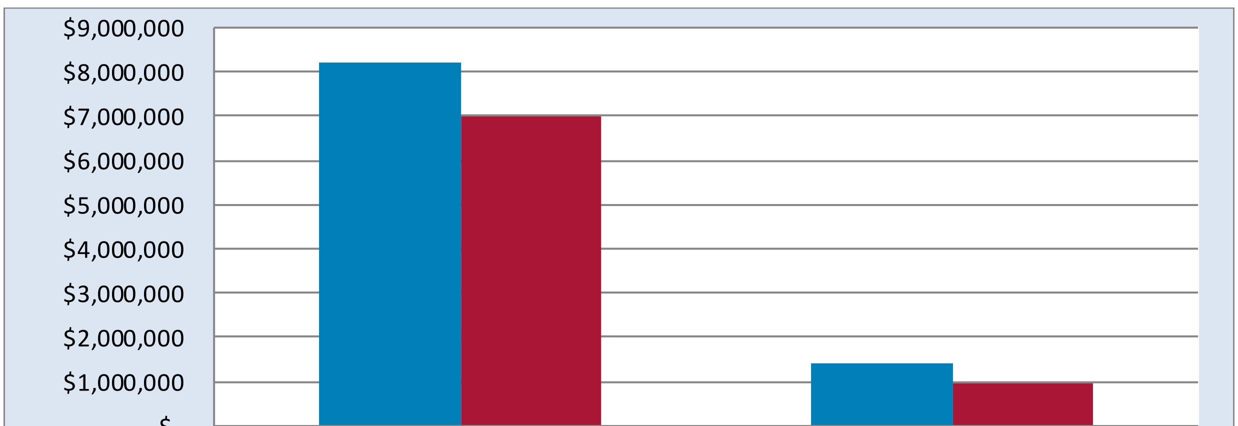
Revenues and Program Expenses – Governmental Activities



	General Government	Public Safety	Culture & Recreation	Public Works	Interest LTD
Revenues	$126,955	$1,998,687	$277,130	$612,106	
Expenses	$3,486,528	$5,845,630	$5,095,575	$2,472,838	$448,368

Figure 2

Revenues and Program Expenses – Business-Type Activities



	Water and Sewer	Drainage Utility
Revenues	$8,206,959	$1,419,460
Expenses	$6,979,614	$978,469

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF NET POSITION
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,292,123	$ 2,267,380	$ 7,559,503
Investments	11,059,973	11,292,733	22,352,706
Receivables, net of allowance for uncollectibles	1,653,925	1,868,272	3,522,197
Inventories	20,440	52,124	72,564
Prepaid items	27,689	315	28,004
Capital assets:			
Land	19,019,600	91,000	19,110,600
Buildings and improvements	14,597,608	2,227,491	16,825,099
Improvements other than buildings	366,706	-	366,706
Equipment	3,381,729	744,400	4,126,129
Drainage improvements	-	7,657,685	7,657,685
Infrastructure	7,366,896	-	7,366,896
Waterworks and sanitary sewer system	-	12,536,009	12,536,009
Construction in progress	3,338,105	8,937,551	12,275,656
Total Capital Assets	48,070,644	32,194,136	80,264,780
Total Assets	66,124,794	47,674,960	113,799,754
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - pension	2,134,238	401,233	2,535,471
Total deferred outflows of resources	2,134,238	401,233	2,535,471
LIABILITIES			
Accounts payable	598,179	374,123	972,302
Accrued liabilities	664,923	445,346	1,110,269
Accrued interest	83,550	74,647	158,197
Customer deposits	21,603	926,926	948,529
Long-term liabilities:			
Due within one year	1,812,495	807,191	2,619,686
Due in more than one year	16,731,292	15,561,633	32,292,925
Net pension liability	5,494,423	1,035,880	6,530,303
Total Liabilities	25,406,465	19,225,746	44,632,211
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pension	546,349	102,671	649,020
Total deferred outflows of resources	546,349	102,671	649,020
NET POSITION			
Net investment in capital assets	36,839,508	24,042,159	60,881,667
Restricted for:			
Debt service	498,538	-	498,538
Unrestricted	4,968,172	4,705,617	9,673,789
Total Net Position	$ 42,306,218	$ 28,747,776	$ 71,053,994

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

		Program Revenue		Net (Expense) Revenue and Changes in Net Position		
				Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government						
Governmental activities						
General government	$ 3,486,528	$ 126,955	$ -	$ (3,359,573)	$ -	$ (3,359,573)
Public safety	5,845,630	1,998,687	-	(3,846,943)	-	(3,846,943)
Culture and recreation	5,095,575	261,019	16,111	(4,818,445)	-	(4,818,445)
Public works	2,472,838	612,106	-	(1,860,732)	-	(1,860,732)
Interest on long-term debt	448,368	-	-	(448,368)	-	(448,368)
Total governmental activities	17,348,939	2,998,767	16,111	(14,334,061)	-	(14,334,061)
Business-type activities:						
Water and Sewer	6,979,614	8,206,959	-	-	1,227,345	1,227,345
Drainage Utility	978,469	1,419,460	-	-	440,991	440,991
Total business-type activities	7,958,083	9,626,419	-	-	1,668,336	1,668,336
Total primary government	$ 25,307,022	$ 12,625,186	$ 16,111	(14,334,061)	1,668,336	(12,665,725)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				7,022,618	-	7,022,618
Sales taxes				5,814,302	-	5,814,302
Franchise taxes				1,003,842	-	1,003,842
Payment in lieu of taxes				457,222	-	457,222
Penalties and interest				39,561	-	39,561
Interest on investments				152,516	103,443	255,959
Miscellaneous revenue				9,439	8,154	17,593
Transfers				516,695	(516,695)	-
Total general revenues and transfers				15,016,195	(405,098)	14,611,097
Change in net position				682,134	1,263,238	1,945,372
Net position - beginning				41,624,084	27,484,538	69,108,622
Net position - ending				$ 42,306,218	$ 28,747,776	$ 71,053,994

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2017

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 2,043,456	$ 416,639	$ 219,958	$ 1,912,974	$ 4,593,027
Investments	2,376,805	120,437	5,396,877	2,186,110	10,080,229
Receivables, net of allowance for uncollectibles					
Property taxes	96,556	42,188	5,840	-	144,584
Accounts receivable	1,022,686	-	-	484,237	1,506,923
Prepaids and deposits	20,491	-	-	7,198	27,689
Inventory of supplies	20,440	-	-	-	20,440
Total Assets	$ 5,580,434	$ 579,264	$ 5,622,675	$ 4,590,519	$ 16,372,892
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 117,959	$ -	$ 91,762	$ 388,457	$ 598,178
Accrued liabilities	512,413	-	41,960	70,006	624,379
Deposits	21,603	-	-	-	21,603
Unearned revenue	40,544	-	-	-	40,544
Total Liabilities	692,519	-	133,722	458,463	1,284,704
Deferred Inflows of Resources					
Unavailable revenue - Property Taxes	96,556	42,188	-	-	138,744
Unavailable revenue - EMS	259,526	-	-	-	259,526
Total Deferred Inflows of Resources	356,082	42,188	-	-	398,270
Fund balances:					
Non-Spendable					
Inventories	20,440	-	-	-	20,440
Prepaid items	20,491	-	-	7,198	27,689
Restricted					
Capital acquisitions and contractual obligations	-	-	5,488,953	430,392	5,919,345
Debt service	-	537,076	-	2,824	539,900
Culture and recreation	-	-	-	838,576	838,576
Public works	-	-	-	1,084,390	1,084,390
Public safety	-	-	-	1,768,676	1,768,676
Unassigned	4,490,902	-	-	-	4,490,902
Total Fund balances	4,531,833	537,076	5,488,953	4,132,056	14,689,918
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 5,580,434	$ 579,264	$ 5,622,675	$ 4,590,519	$ 16,372,892

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2017

Total fund balance - governmental funds	$	14,689,918
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.		48,070,644
Deferred outflows related to Texas Municipal Retirement System		2,134,238
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.		(83,551)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.		398,270
Deferred inflows related to Texas Municipal Retirement System		(546,349)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General obligation bonds		(2,335,000)
Certificate of obligations		(13,195,000)
Premiums on issuance		(308,685)
Notes payable		(442,622)
Compensated absences		(2,262,480)
Net pension liablity		(5,494,423)
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.		1,681,258
Net position of governmental activities	$	42,306,218

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2017

	General Fund	G.O. Debt Service Fund	G.O. Capital Projects Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and franchise fees	$ 8,768,940	$ 2,224,329	$ -	$ 2,874,068	$ 13,867,337
Licenses and permits	428,530	-	-	-	428,530
Charges for services	745,127	-	-	-	745,127
Fines and forfeitures	630,736	-	-	891,853	1,522,589
Interest income	62,173	4,536	44,047	28,481	139,237
Intergovernmental	457,222	-	-	-	457,222
Miscellaneous	217,711	-	-	96,562	314,273
Total Revenues	11,310,439	2,228,865	44,047	3,890,964	17,474,315
Expenditures					
Current:					
General government	6,237,870	-	-	-	6,237,870
Public safety	3,308,285	-	-	2,075,113	5,383,398
Culture and recreation	1,502,348	-	-	612,045	2,114,393
Public works	1,077,528	-	-	87,498	1,165,026
Capital outlay	-	-	2,915,788	503,935	3,419,723
Debt Service:					
Principal	-	1,635,000	60,225	-	1,695,225
Interest and other charges	-	451,981	22,628	-	474,609
Total Expenditures	12,126,031	2,086,981	2,998,641	3,278,591	20,490,244
Excess (deficiency) of revenues over expenditures	(815,592)	141,884	(2,954,594)	612,373	(3,015,929)
Other Financing Sources (Uses)					
Proceeds from sale of assets	8,880	-	-	7,151	16,031
Transfers in	522,793	-	370,000	-	892,793
Transfers out	(661,000)	-	-	(65,098)	(726,098)
Total other financing sources and uses	(129,327)	-	370,000	(57,947)	182,726
Net change in fund balances	(944,919)	141,884	(2,584,594)	554,426	(2,833,203)
Fund balances - beginning	5,476,752	395,192	8,073,547	3,577,630	17,523,121
Fund balances - ending	$ 4,531,833	$ 537,076	$ 5,488,953	$ 4,132,056	$ 14,689,918

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2017

Net change in fund balances - total governmental funds	$	(2,833,203)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.		3,889,731
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(2,200,673)
Governmental funds report the entire net sales price (proceeds) from the sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the asset. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold and disposed.		(6,592)
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assts. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,689,913
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(17,829)
Pension contributions made after the pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position		1,039,501
Accrued interest is not reported in the fund financial statements and the change is reported in the statement of activities		(20,154)
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.		17,346
Pension expense for the pension plan measurement year		(1,381,583)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.		505,677
Change in net position of governmental activities	$	682,134

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities - Internal Service Fund
ASSETS	**Water and Sewer**	**Drainage Utility**	**Total Enterprise Funds**	
Current assets				
Cash and cash equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Investments	9,392,459	1,900,274	11,292,733	979,744
Accounts receivable and unbilled revenue less allowance for uncollectibles of $728,581 for water and sewer, and $33,866 for drainage utility	1,786,559	81,713	1,868,272	2,418
Inventories	52,124	-	52,124	-
Prepaid items	315	-	315	-
Total current assets	12,040,214	3,440,610	15,480,824	1,681,258
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	7,382,519	1,555,032	8,937,551	-
Buildings	3,246,847	106,931	3,353,778	154,068
Equipment	1,527,360	88,014	1,615,374	2,803,869
Street improvements	-	70,991	70,991	-
Drainage improvements	-	16,741,084	16,741,084	-
Waterworks and sanitary sewer system	16,703,935	-	16,703,935	-
	28,951,661	18,562,052	47,513,713	2,957,937
Less Accumulated depreciation	(6,270,679)	(9,231,157)	(15,501,836)	(1,862,006)
Net utility plant and equipment in service	22,680,982	9,330,895	32,011,877	1,095,931
Total noncurrent assets	22,680,982	9,330,895	32,011,877	1,095,931
Total assets	34,721,196	12,771,505	47,492,701	2,777,189
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows - pension	314,582	86,651	401,233	-
Total deferred outflows	314,582	86,651	401,233	-

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	$ 370,955	$ 3,168	$ 374,123	$ -
Accrued liabilities	364,080	81,266	445,346	-
Current portion of compensated absences	33,076	5,793	38,869	-
Current portion of bonds payable	505,000	-	505,000	-
Deposits	926,926	-	926,926	-
Accrued interest	74,647	-	74,647	-
Total current liabilities	2,274,684	90,227	2,364,911	-
Noncurrent liabilities:				
Bonds payable	15,493,305	-	15,493,305	-
Compensated absences	246,604	85,046	331,650	-
Net pension liability	802,696	233,184	1,035,880	-
Total non-current liabilities	16,542,605	318,230	16,860,835	-
Total liabilities	18,817,289	408,457	19,225,746	-
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows - pension	80,403	22,268	102,671	-
Total deferred outflows	80,403	22,268	102,671	-
NET POSITION				
Net investment in capital assets	14,529,005	9,330,895	23,859,900	1,095,931
Unrestricted	1,609,081	3,096,536	4,705,617	1,681,258
Total Net Position	$ 16,138,086	$ 12,427,431	28,565,517	$ 2,777,189
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			182,259	
			$ 28,747,776	
Net position of business-type activities				

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2017

	Business-Type Activities			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
Operating revenues				
Water service	$ 4,239,099	$ -	$ 4,239,099	$ -
Sewer service	3,397,237	-	3,397,237	-
Drainage fees	-	1,419,460	1,419,460	-
Service fees and miscellaneous	570,627	-	570,627	294,336
Total operating revenues	8,206,963	1,419,460	9,626,423	294,336
Operating expenses				
General and administrative	152,902	2,966	155,868	-
Wastewater treatment	1,925,085	-	1,925,085	-
Water distribution	2,206,317	-	2,206,317	-
Personnel services	1,086,598	439,263	1,525,861	-
Nondepartmental	658,915	123,683	782,598	-
Billing and collections	62,288	-	62,288	-
Supplies	-	23,375	23,375	-
Repairs and maintenance	100,955	10,167	111,122	-
Contractual services	-	30,291	30,291	
Depreciation and amortization	403,020	348,724	751,744	161,531
Total operating expenses	6,596,080	978,469	7,574,549	161,531
Operating income (loss)	1,610,883	440,991	2,051,874	132,805
Non-operating revenues (expenses)				
Investment income	78,565	24,878	103,443	13,279
Gain (loss) on disposal of capital assets	-	8,150	8,150	-
General and Administrative				
Bond Issuance Costs	(86,913)	-	(86,913)	-
Interest expense	(287,027)	-	(287,027)	-
Total Non-operating revenue (expenses), net	(295,375)	33,028	(262,347)	13,279
Income (loss) before transfers	1,315,508	474,019	1,789,527	146,084
Transfers in	-	-	-	350,000
Transfers out	(436,722)	(79,973)	(516,695)	-
Change in net position	878,786	394,046	1,272,832	496,084
Total net position - beginning of the year	15,259,300	12,033,385		2,281,105
Total net position - ending of the year	$ 16,138,086	$ 12,427,431		$ 2,777,189

Reconciliation to government-wide statement of net position

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(9,594)
Change in net position of business-type activities	$ 1,263,238

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2017

	Business-Type Activities			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
OPERATING ACTIVITIES				
Cash received from customers	$ 8,045,918	1,426,314	$ 9,472,232	$ 295,613
Cash payments to suppliers for goods and services	(5,304,650)	(632,424)	(5,937,074)	-
Cash payments to employees for services	(1,302,043)	(403,471)	(1,705,514)	-
Net cash provided by operating activities	1,439,225	390,419	1,829,644	295,613
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	350,000
Transfers to other funds	(436,722)	(79,973)	(516,695)	-
Net cash provided by (used by) noncapital financing activities	(436,722)	(79,973)	(516,695)	350,000
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of equipment	-	8,150	8,150	-
Purchase of capital assets	(2,356,938)	(236,833)	(2,593,771)	(201,587)
Repayment of debt	(505,000)	-	(505,000)	-
Bond issuance costs	(86,912)		(86,912)	
Net Proceeds from issuance of debt	7,594,848	-	7,594,848	-
Interest paid on debt	(234,643)	-	(234,643)	-
Net cash provided by (used by) capital and related financing activities	4,411,355	(228,683)	4,182,672	(201,587)
INVESTING ACTIVITIES				
Investment income	78,565	24,878	103,443	13,279
Purchase of investments	(5,101,523)	(95,894)	(5,197,417)	(125,510)
Net cash (used by) investing activities	(5,022,958)	(71,016)	(5,093,974)	(112,231)
Net change in cash and cash equivalents	390,900	10,747	401,647	331,795
Cash and equivalents, beginning of year	417,857	1,447,876	1,865,733	367,301
Cash and equivalents, at end of year	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Unrestricted cash and equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096

The Notes to the Basic Financial Statements
are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2017
(continued)

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Reconciliation of operating income to net cash provided by operating activities				
Operating income	$ 1,610,883	$ 440,991	$ 2,051,874	$ 132,805
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	403,020	348,724	751,744	161,531
(Increase) decrease in accounts receivable and unbilled revenue	(181,337)	6,854	(174,483)	1,277
(Increase) decrease in prepaids items	2,700	-	2,700	-
(Increase) decrease in deferred outflows - pensions	80,541	17,206	97,747	-
(increase) decrease in inventory	8,110	-	8,110	-
Increase (decrease) in deferred inflows - pension	30,561	7,644	38,205	-
Increase (decrease) in accounts payable	(616,967)	(441,942)	(1,058,909)	-
Increase (decrease) in accrued liabilities	90,195	13,603	103,798	-
Increase (decrease) in net pension liability	(48,251)	(12,069)	(60,320)	
Increase (decrease) in compensated absences	39,478	9,408	48,886	-
Increase (decrease) in deposits	20,292	-	20,292	-
Net cash provided by operating activities	$ 1,439,225	$ 390,419	$ 1,829,644	$ 295,613
Reconciliation of cash to balance sheet				
Cash - current	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096
Cash and cash equivalents	$ 808,757	$ 1,458,623	$ 2,267,380	$ 699,096

The Notes to the Basic Financial Statements
are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007 and May 11, 2013. The City operates under a Mayor-Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69*, as amended by *Statement on Auditing Standards No.'s 91 and 93* of the American Institute of Certified Public Accountants.

Financial Reporting Entity

The basic financial statements of the City include the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Parks Development Corporation's (WPDC) sole purpose is to act on behalf of the City in the accumulation and use of resources to build and improve City parks. The WPDC's governing board is appointed by the City Council. The WPDC is composed of three funds: a special revenue fund, a capital projects fund and a debt service fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

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 revenues 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.

General Obligation Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

General Obligation Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports the Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly-liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents.

Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion.

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to $2.50 per $100 of assessed valuation. The City's current tax rate is $0.618411 per $100 of assessed valuation ($0.618718 per $100 last year) and assessed valuation is approximately 100% of estimated value.

Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized, not including infrastructure assets, have an original cost of $5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	10 years
Equipment	3-10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	60 years

Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The total liability for compensated absences at September 30, 2017 was $2,632,999, including $370,519 of proprietary fund balances which are included with accrued liabilities on the proprietary fund balance sheet.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the General Fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding – Reported in the government-wide statement of net position, the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related outflow will be amortized over a closed five year period.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for this category:

- Deferred inflows of resources for unavailable revenues – Reported in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan, which is currently 3.78 years.

Fund Equity

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance - amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager.

Unassigned fund balance – amounts that are available for any purpose.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2017, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Implementation of New Accounting Standards

In the current fiscal year, the City implemented the following new accounting standards:

GASB Statement No. 77, *Tax Abatement Disclosures,* establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The disclosures required by this Statement encompass tax abatements resulting from both (a) agreements that are entered into by the reporting government and (b) agreements that are entered into by other governments and that reduce the reporting government's tax revenues. The provisions of this Statement should be applied to all state and local governments subject to such tax abatement agreements. The City has no tax abatements that would require disclosures.

GASB Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, 68 and 73,* this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

Authorized Investment Type	Final Stated Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Public funds investment pool	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market mutual funds	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

The act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2017, are classified in the accompanying financial statements as follows:

Governmental Activities	$	16,352,096
Business Type Activities		13,560,113
	$	29,912,209

Deposits and investments as of September 30, 2017, consist of the following:

Deposits with financial institutions	$	666,449
Investments		29,245,760
	$	29,912,209

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

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

Investment Type		Carrying Value	Weighted Average Maturity
TexPool	$	2,515,397	34 days
TexPool Prime		506,752	51 days
TexasTerm		449,091	37 days
LOGIC		344,594	40 days
Money Market		13,856,496	Daily
CDs		11,573,430	31 Days
	$	29,245,760	

$1,089,003 of the investments listed above is in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2017, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	$ 2,515,397	AAA	AAAm
TexPool Prime	506,752	AAA	AAAm
Texas Term	449,091	AAA	AAAm
LOGIC	344,594	AAA	AAAm
Money Market	13,856,496	N/A	N/A
CDs	11,573,430	N/A	N/A
	$ 29,245,760		

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2017, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of $250,000 at all times.

At September 30, 2017, the carrying amount of the City's cash on hand and deposits was $666,449 and the bank balance was $2,150,026. Of the bank balance, $250,000 was covered by federal depository insurance while the remaining $1,900,026 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and Texas Term external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a ‘Constant Dollar” net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

Texas Term is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the Texas Term Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in Texas Term is the same as the value of Texas Term shares.

The City’s external pooled funds are reported at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants.* Amortized cost for the investment pools approximates fair value. In addition, The City’s investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

Market values of money market accounts and certificates of deposit are based on quoted market values using Level 2 inputs.

NOTE 3 - CAPITAL ASSETS

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

	Balance September 30, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	$ 19,019,600	$ -	$ -	$ 19,019,600
Construction in progress	521,804	2,818,801	(2,500)	3,338,105
Total capital assets not being depreciated	19,541,404	2,818,801	(2,500)	22,357,705
Capital assets being depreciated				
Buildings and improvements	19,435,063	-	-	19,435,063
Improvements other than buildings	413,778	-	-	413,778
Equipment	11,937,601	452,769	(312,907)	12,077,463
Infrastructure	29,510,538	634,718	-	30,145,256
Total capital assets being depreciated	61,296,980	1,087,487	(312,907)	62,071,560
Less accumulated depreciation				
Buildings and improvements	4,494,829	342,626	-	4,837,455
Improvements other than buildings	38,796	8,276	-	47,072
Equipment	8,321,152	683,397	(308,815)	8,695,734
Infrastructure	21,645,079	1,133,281	-	22,778,360
Total accumulated depreciation	34,499,856	2,167,580	(308,815)	36,358,621
Total capital assets being depreciated, net	26,797,124	(1,080,093)	(4,092)	25,712,939
Governmental activities capital assets, net	$ 46,338,528	$ 1,738,708	$ (6,592)	$ 48,070,644

NOTE 3 - CAPITAL ASSETS (continued

	Balance September 30, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Business-Type Activities				
Capital assets not being depreciated				
Land	$ 91,000	$ -	$ -	$ 91,000
Construction in progress	6,753,473	2,391,100	(207,022)	8,937,551
Total capital assets not being depreciated	6,844,473	2,391,100	(207,022)	9,028,551
Capital assets being depreciated				
Buildings and improvements	3,353,778	-	-	3,353,778
Equipment	1,952,652	19,064	(51,487)	1,920,229
Street and drainage improvements	16,795,256	16,819	-	16,812,075
Waterworks and sewer system	16,262,096	234,817	207,022	16,703,935
Total capital assets being depreciated	38,363,782	270,700	155,535	38,790,017
Less accumulated depreciation for				
Buildings and improvements	1,062,612	63,675	-	1,126,287
Equipment	1,093,912	133,404	(51,487)	1,175,829
Street and drainage improvements	8,818,899	335,491	-	9,154,390
Waterworks and sewer system	3,920,093	247,833	-	4,167,926
Total accumulated depreciation	14,895,516	780,403	(51,487)	15,624,432
Total capital assets being depreciated, net	23,468,266	(509,703)	207,022	23,165,585
Business-type activities capital assets, net	$ 30,312,739	$ 1,881,397	$ -	$ 32,194,136

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

Governmental activities	
General government	$ 284,198
Public safety	369,220
Culture and recreation	210,969
Public works	1,303,193
Total depreciation expense - Governmental Activities	$ 2,167,580
Business-Type activities	
Water and sewer	$ 403,021
Drainage	348,724
Internal Service Fund	28,658
Total depreciation expense - Business-Type Activities	$ 780,403

NOTE 3 - CAPITAL ASSETS (continued

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2017 are as follows:

Project Name	Remaining Commitment	Total In Progress
Governmental Activities:		
Water Tower	$ 3,259	$ 6,741
Wastewater Improvements	-	107,730
Capp Smith retaining wall project	165,550	34,450
Green Ribbon project	46,540	25,460
Bursey Road - phase two	1,595,708	521,692
Whitley Road - phase one	421,013	390,987
Splashpad	657	344
Senior Center	67,774	2,250,701
Total Governmental Activities	$ 2,300,501	$ 3,338,105
Business-Type Activities:		
Water and Sewer Projects	$ 892,095	$ 8,937,551
Total Business-Type Activities	$ 892,095	$ 8,937,551

NOTE 4 - LONG-TERM DEBT

During the fiscal year ended September 30, 2017, the City issued a Combination Tax and Limited Pledge Revenue Certificates of Obligation Series 2017 in amount of $7,325,000 with an interest rate of 3.00% and premiums in the amount of $259,710. The proceeds will be used for street and drainage improvements and professional consulting fees related to the projects.

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

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	$ 3,045,000	$ -	$ (710,000)	$ 2,335,000	$ 730,000
Certificates of obligation	14,120,000	-	(925,000)	13,195,000	935,000
Unamortized bond premium	329,067	-	(20,382)	308,685	-
Note payable	502,847	-	(60,225)	442,622	62,935
Compensated absences	2,244,651	346,863	(329,034)	2,262,480	84,560
Total governmental activities	20,241,565	346,863	(2,044,641)	18,543,787	1,812,495
Business-Type Activities					
Certificates of obligation	8,595,000	7,325,000	(505,000)	15,415,000	760,000
Unamortized bond premium	351,403	259,710	(27,808)	583,305	-
Compensated absences	321,634	58,061	(9,176)	370,519	47,191
Total Business-type Activities	9,268,037	7,642,771	(541,984)	16,368,824	807,191
Total government-wide activities	$ 29,509,602	$ 7,989,634	$ (2,586,625)	$ 34,912,611	$ 2,619,686

NOTE 4 - LONG-TERM DEBT (continued)

Prior Year Refunding of General Obligation and Sales Tax Bonds

In prior years, the City deferred certain outstanding bonds by placing proceeds of general obligation and sales tax refunding bonds in irrevocable escrow accounts to provide for all future debt service payments on the old bonds. Accordingly, the escrow accounts to provide for all future bonds are not included in the City's financial statements. As of September 30, 2017, none of the defeased bonds remain outstanding.

Amounts payable at September 30, 2017, are comprised of the following individual issues:

	Governmental	Business-Type
\$2,855,000 Series 2006 General Obligation Refunding Bonds due in annual installments of \$20,000 to \$330,000 through April 1, 2020; interest at 3.730%.	\$ 960,000	\$ -
\$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$65,000 to \$255,000 through February 1, 2027; interest at 4.110%.	2,140,000	-
\$1,020,000 Series 2011 General Obligation Refunding Bonds due in annual installments of \$135,000 to \$160,000 through February 1, 2018; interest at 1.95%.	160,000	-
\$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of \$125,000 to \$270,000 through February 1, 2023; interest at 2.25%.	1,215,000	-
\$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$85,000 to \$900,000 through February 2034; interest at 1.00% to 3.500%.	3,185,000	-
\$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$285,000 to \$355,000 through February 2036; interest at 2.00% to 4.00%	5,600,000	
\$7,365,000 Series 2011 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$315,000 to \$660,000 through February 1, 2026; interest at 2.00% to 4.00%	2,270,000	1,900,000
\$7,730,000 Series 2012 Certificates of Obligation due in annual installments of \$290,000 to \$510,000 through February 1, 2032; interest at 2.00% to 3.25%.	-	6,190,000
\$7,325,000 Series 2017 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2037; interest at 3.00% to 5.00%.	-	7,325,000
Total Bonds Payable	\$ 15,530,000	\$ 15,415,000

NOTE 4 - LONG-TERM DEBT (continued)

Notes payable at September 30, 2017, are comprised of the following individual issues:

	Governmental	Business-Type
Note payable to City of North Richland Hills annual installments of $19,785, including interest at 4.5%, maturing February 2021.	$ 70,982	$ -
Note payable to City of North Richland Hills annual installments of $63,068, including interest at 4.5%, maturing October 2024.	371,640	-
Total Notes Payable	442,622	-
Total Bonds and Notes Payable	$ 15,972,622	$ 15,415,000

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2017, are as follows:

General Obligation Bonds

	Governmental Activities		
	Principal	Interest	Total
2018	$ 730,000	$ 56,000	$ 786,000
2019	500,000	37,740	537,740
2020	520,000	21,455	541,455
2021	200,000	10,913	210,913
2022	195,000	6,469	201,469
2023 - 2024	190,000	2,138	192,138
	$ 2,335,000	$ 134,715	$ 2,469,715

Certificates of Obligation

	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2018	$ 935,000	$ 374,240	$ 760,000	$ 500,788	$ 2,570,028
2019	1,015,000	346,692	810,000	442,750	2,614,442
2020	1,040,000	314,411	835,000	418,925	2,608,336
2021	1,415,000	275,852	865,000	393,425	2,949,277
2022	1,470,000	233,258	885,000	367,175	2,955,433
2023 - 2027	3,540,000	755,266	4,630,000	1,393,652	10,318,918
2028 - 2032	2,140,000	327,606	4,360,000	690,827	7,518,433
2033 - 2037	1,640,000	68,567	2,270,000	174,450	4,153,017
	$ 13,195,000	$ 2,695,892	$ 15,415,000	$ 4,381,992	$ 35,687,884

NOTE 4 - LONG-TERM DEBT (continued)

Annual Requirements to Retire Debt Obligations (continued)

The annual aggregate maturities for each bond type for the years subsequent to September 30, 2017, are as follows:

Notes Payable

	Governmental Activities					
	Principal		Interest		Total	
2018	$	62,935	$	19,918	$	82,853
2019		65,767		17,086		82,853
2020		68,727		14,126		82,853
2021		71,819		10,764		82,583
2022		55,266		7,802		63,068
2023 - 2024		118,108		8,031		126,139
	$	442,622	$	77,727	$	520,349

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

NOTE 5 - INTERFUND TRANSFERS

All interfund transfers between the various funds are approved supplements to the operations of those funds.

Interfund transfers:

Transfers In	Transfers Out	Amounts	
General Fund	WPDC Sales Tax Fund	$	36,285
General Fund	Storm Drain Utility		70,973
General Fund	WCCPD Fund		28,813
General Fund	Water and Sewer Operating Fund		386,722
Capital Projects Fund	General Fund		370,000
Equipment Replacement Fund	Water and Sewer Operating Fund		50,000
Equipment Replacement Fund	Storm Drain Utility		9,000
Equipment Replacement Fund	General Fund		291,000
		$	1,242,793

Transfers are primarily used to move funds to:

- General Fund from Watauga Parks Development Corporation (“WPDC”) Sales Tax Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

NOTE 5 - INTERFUND TRANSFERS (continued)

- General Fund from Storm Drain Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Watauga Crime Control and Prevention District ("WPCCPD") Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.

- General Fund from Water and Sewer Operating Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.

- Capital Projects Fund from General Fund for capital improvement plans, specifically street reconstruction and renovations.

- The transfer to Equipment Replacement Fund were for the acquisition of various replacement capital needs in the City.

NOTE 6 - PENSION PLAN

The City of Watauga, Texas participates as one of 866 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.

A. Benefits Provided

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

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

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

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

NOTE 6 - PENSION PLAN (continued)

A. Benefits Provided (continued)

Employees covered by benefit terms.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	89
Inactive employees entitled to but not yet receiving benefits	158
Active employees	163
Total	410

B. Contributions

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

Employees for the City were required to contribute 7.00 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.32 percent and 13.90 percent in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017 were $1,259,325, and were equal to the required contributions.

C. 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	2.50% per year
Overall payroll growth	3.00% 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%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

NOTE 6 - PENSION PLAN (continued)

C. Net Pension Liability (continued)

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, 2015 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 2016 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100%	

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.

NOTE 6 - PENSION PLAN (continued)

C. Net Pension Liability (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2015	$ 42,855,824	$ 35,942,184	$ 6,913,640
Changes for the year:			
Service cost	1,513,714	-	1,513,714
Interest (on the Total Pension Liability)	2,907,277	-	2,907,277
Difference between expected and actual experience	(570,355)	-	(570,355)
Chages of assumptions	-	-	-
Contributions - employer	-	1,197,145	(1,197,145)
Contributions - employee	-	636,779	(636,779)
Net investment income	-	2,428,960	(2,428,960)
Benefit payments, including refunds of employee	(1,083,810)	-	(1,083,810)
contributions	-	(1,083,810)	1,083,810
Administrative expense	-	(27,433)	27,433
Other	-	(1,478)	1,478
Balance at 12/31/2016	$ 45,622,650	$ 39,092,347	$ 6,530,303

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

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
$13,659,655	$6,530,303	$775,704

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.

NOTE 6 - PENSION PLAN (continued)

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

For the year ended September 30, 2017 the city recognized pension expense of $1,639,580.

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
Difference in expected and actual experience	$ -	$ 649,020
Difference in assumption changes	28,444	-
Difference in projected and actual earnings on pension plan investments.	1,608,113	-
Employer contributions made after the measurement date	898,914	-
Totals	$ 2,535,471	$ 649,020

$898,914 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2018	$ 265,428
2019	373,880
2020	348,802
2021	(573)
Total	$ 987,537

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS

In fiscal year 2009, the City implemented Governmental Accounting Standards Board (“GASB”) Statement 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions (“OPEB”) prospectively.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Supplemental Death Benefits Plan

Plan Description

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"). See Note 6 for information on accessing the comprehensive annual financial report for TMRS. 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 OPEB.

Funding Policy

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. Contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions over payments then become net position available for OPEB.

Contributions

Contribution requirements of the participating employers are established and may be amended by the TMRS Board of Trustees. The City is required to contribute at a rate assessed each year by the TMRS Board of Trustees, currently 0.16% of covered payroll. The TMRS Board of Trustees sets the employer contribution rate based on the mortality and service experience of all employees by the plan and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

Contributions are made monthly based on covered payroll of employee members of the City. The City contributes to the SDBF at the contractually required rate as determined by the annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The City's contribution rates for the last three calendar/plan years are as follows:

Schedule of Contribution Rates (Retiree-only portion of the rate)

Plan Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	% of ARC Contributed
2014	0.15%	0.15%	100%
2015	0.14%	0.14%	100%
2016	0.16%	0.16%	100%

The City's contributions to the TMRS SDBF for the years ended 2017, 2016 and 2015 were $15,326, $13,951 and $12,607, respectively, which equaled the required contributions each year.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a $2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is $1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 9 - LITIGATION

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

NOTE 10 - OPERATING LEASE

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

2018	$	47,774
2019	$	44,550
	$	92,324

Lease and rental expenditures were $56,024 for the year ended September 30, 2017.

NOTE 11 - FUND BALANCE RESTRICTIONS

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2017, follows:

	G.O. Debt Service Funds	G.O. Capital Projects Fund	Non Major Governmental Funds
Capital acquisitions and contractual obligations	$ -	$ 5,488,953	$ 430,392
Debt service	537,076	-	2,824
Culture and recreation:			
Park improvements	-	-	805,441
Library purposes	-	-	33,135
	-	-	838,576
Public works:			
Street maintenance	-	-	1,084,390
Public safety:			
Law enforcement	-	-	1,501,524
Municipal court operations	-	-	267,152
	-	-	1,768,676
Total	$ 537,076	$ 5,488,953	$ 4,124,858

Financial Advisory Services
Provided By:

SAMCO CAPITAL MARKETS, INC.