(See "Continuing Disclosure of Information" herein)

OFFICIAL STATEMENT

Dated August 13, 2018

Ratings:
S&P: "AA-"
See "Other Information – Ratings" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "Tax Matters" herein.

THE CITY **HAS** DESIGNATED THE CERTIFICATES AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS - SEE "TAX MATTERS - QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS" HEREIN.

$2,090,000
CITY OF MCGREGOR, TEXAS
(McLennan County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018A

Dated Date: August 1, 2018 **Due: August 15, as shown on page 2**
Interest to Accrue from Date of Delivery

PAYMENT TERMS. . . Interest on the $2,090,000 City of McGregor, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018A (the "Certificates") will accrue from the Date of Delivery (as hereinafter defined), will be payable February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "The Certificates - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE. . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), particularly Texas Local Government Code, Chapter 271, Subchapter C (the "Certificate of Obligation Act of 1971"), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, the City's Home Rule Charter, and an ordinance adopted by the City Council (the "Ordinance") (see "The Certificates – Authority of Issuance"). The Certificates constitute direct obligations of the City of McGregor, Texas (the "City" or the "Issuer"), payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a limited pledge of the Surplus Revenues of the City's Waterworks and Sewer System, not to exceed $1,000 (see "The Certificates – Security and Source of Payment").

PURPOSE. . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to finance the (1) "Community Facility Project" which consists of the design, renovation, and construction of improvements to the land and facilities located at 109 and 201 West Fourth Street in McGregor, Texas (the land and facilities, together, the "Exchange Property") which are required or suitable for making the Exchange Property usable for entertainment, tourist, and public park purposes and events, with such improvements to include parks and park facilities, open space improvements, related parking facilities, and other related improvements that enhance the use of the Exchange Property for entertainment, tourist, or public park purposes, including the design, rehabilitation, renovation, and expansion of the existing buildings situated on the Exchange Property; and (2) professional services and costs of issuance related thereto (see "The Certificates – Purpose").

CUSIP PREFIX: 580713
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 2

LEGALITY. . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Purchaser") of the Certificates and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel, Austin, Texas (see "Appendix C - Form of Bond Counsel's Opinion").

DELIVERY. . . It is expected that the Certificates will be available for delivery through DTC on September 12, 2018 (the "Date of Delivery").

CUSIP Prefix: 580713 [(1)]

MATURITY SCHEDULE

Principal Amount	15-Aug Maturity	Interest Rate	Intial Yield	CUSIP Suffix [(1)]
$ 85,000	2019	2.000%	1.650%	FW0
85,000	2020	2.000%	1.800%	FX8
85,000	2021	2.000%	1.950%	FY6
85,000	2022	2.000%	2.050%	FZ3
90,000	2023	2.000%	2.200%	GA7
90,000	2024	2.000%	2.300%	GB5
90,000	2025	2.125%	2.400%	GC3
95,000	2026	3.000%	2.500%	GD1
95,000	2027	3.000%	2.600%	GE9
100,000	2028	3.000%	2.750%	GF6
100,000	2029	3.000%	2.900% [(2)]	GG4
105,000	2030	3.000%	3.050%	GH2

$220,000 4.000% Term Certificates due August 15, 2032, priced to yield 3.000%[(2)], CUSIP Suffix: GK5
$235,000 4.000% Term Certificates due August 15, 2034, priced to yield 3.100%[(2)], CUSIP Suffix: GM1
$255,000 4.000% Term Certificates due August 15, 2036, priced to yield 3.150%[(2)], CUSIP Suffix: GP4
$275,000 4.000% Term Certificates due August 15, 2038, priced to yield 3.200%[(2)], CUSIP Suffix: GR0

(Interest to accrue from the Date of Delivery)

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ 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. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. Neither the City nor the Financial Advisor shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on the first available optional redemption date set forth below, at a redemption price of par, plus accrued interest to the date fixed for redemption.

OPTIONAL REDEMPTION. . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on August 15 in the years 2032, 2034, 2036 and 2038 (the "Term Certificates") are subject to mandatory sinking fund redemption as described herein (see "THE CERTIFICATES – Mandatory Sinking Fund Redemption").

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

No dealer, broker, salesman or other person has been authorized by the City 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 Certificates in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the City and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions 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 any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Purchaser after the Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Certificates into investment accounts.

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 JURISDICTION IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NEITHER THE CITY NOR ITS FINANCIAL ADVISOR MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN FURNISHED BY THE DEPOSITORY TRUST COMPANY.

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

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

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 purchasers 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 HEREIN.

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

OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of McGregor is a political subdivision and municipal corporation of the State of Texas (the "State"), located in McLennan County, Texas. The City covers approximately 22 square miles (see "Introduction - Description of the City").
THE CERTIFICATES	The $2,090,000 City of McGregor, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018A are issued as serial certificates maturing August 15 in each of the years 2019 through 2030 and as Term Certificates maturing on August 15 in the years 2032, 2034, 2036 and 2038 (see "The Certificates – Description of the Certificates").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Date of Delivery, and is payable February 15, 2019, and each August 15 and February 15 thereafter, until maturity or prior redemption (see "The Certificates - Description of the Certificates").
AUTHORITY FOR ISSUANCE	The Certificates are authorized and issued pursuant to the City's Home Rule Charter, the Constitution and the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City (see "The Certificates – Authority for Issuance").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a limited pledge of the Surplus Revenues of the City's Waterworks and Sewer System, not to exceed $1,000 (see "The Certificates - Security and Source of Payment" and "The Certificates - Tax Rate Limitation" herein).
QUALIFIED TAX-EXEMPT OBLIGATIONS	The City **has** designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see "Tax Matters – Qualified Tax-Exempt Obligations for Financial Institutions").
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Certificates - Optional Redemption"). Additionally, the Term Certificates are subject to mandatory sinking fund redemption as more particularly described herein (see "The Certificates – Mandatory Sinking Fund Redemption").
TAX EXEMPTION	In the opinion of Bond Counsel, interest on the Certificates is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters" herein.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to finance the (1) "Community Facility Project" which consists of the design, renovation, and construction of improvements to the land and facilities located at 109 and 201 West Fourth Street in McGregor, Texas (the land and facilities, together, the "Exchange Property") which are required or suitable for making the Exchange Property usable for entertainment, tourist, and public park purposes and events, with such improvements to include parks and park facilities, open space improvements, related parking facilities, and other related improvements that enhance the use of the Exchange Property for entertainment, tourist, or public park purposes, including the design, rehabilitation, renovation, and expansion of the existing buildings situated on the Exchange Property; and (2) professional services and costs of issuance related thereto (see "The Certificates – Purpose").
RATINGS	The Certificates and the currently outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), without regard to credit enhancement (see "Other Information - Ratings").
BOOK-ENTRY-ONLY SYSTEM	The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable

by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see “The Certificates - Book-Entry-Only System”).

PAYMENT RECORD .... The City failed to make a full principal and interest payment due August 15, 2017 on City of McGregor, Texas Combination Tax and Revenue Certificates of Obligation, Series 2017 (the “2017 Certificates”). The City’s failure to make full payment of principal and interest due on the 2017 Certificates on August 15, 2017 is the result of a clerical error by two outside vendors to the City. The City was instructed to pay an insufficient amount of funds to the Paying Agent/Registrar on the date the funds were due. The City was timely in making the insufficient payment to the Paying Agent/Registrar. During the process of clearing the funds for wire to the 2017 Certificate holders, DTC identified the insufficient amount of funds and designated the August 15, 2017 payment as “unpaid”. The City satisfied its obligation by remitting the unpaid portion of interest on the 2017 Certificates due August 15, 2017 in full on August 25, 2017. The failure to make the full payment due August 15, 2017 on the 2017 Certificates was not the fault of the City, its governing body, or its administration. It is not a reflection of the City’s ability to satisfy its debt obligations in the future.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population (1)	Taxable Assessed Valuation(2)	Per Capita Taxable Assessed Valuation	Funded Tax Debt(3)	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	5,143	$ 256,131,668	$ 49,802	$ 8,440,805	$ 1,641	3.30%	99.70%
2015	5,195	288,643,173	55,562	7,916,366	1,524	2.74%	99.48%
2016	5,179	308,953,273	59,655	14,228,053	2,747	4.61%	98.21%
2017	5,200	336,919,943	64,792	16,234,683	3,122	4.82%	98.02%
2018	5,206	367,361,500	70,565	19,532,065 (4)	3,752 (4)	5.32% (4)	98.90% (5)

(1) Source: City officials.
(2) As reported by the McLennan County Appraisal District on the City's annual State Property Tax Board Report and is subject to changes during ensuing year.
(3) Includes self-supporting debt.
(4) Projected. Includes the Certificates.
(5) Collections as of May 31, 2018.

For additional information regarding the City, please contact:

Mr. Kevin P. Evans		Mr. W. Boyd London
City Manager		Mrs. Sara Cheek
City of McGregor		Hilltop Securities Inc.
302 South Madison	or	1201 Elm Street, Suite 3500
McGregor, TX 76657		Dallas, TX 75270
(254) 840-2806		(214) 953-4000

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
James S. "Jimmy" Hering Mayor	22 years	May 2020	Lawyer
Andrew Henderson Sr. Mayor Pro Tem	20 years	May 2019	Retired
Tony Ocampo Councilmember	9 months	May 2019	Insurance Adjuster (Travelers Insurance)
Paul Allison Councilmember	22 years	May 2020	Self-employed
David Taylor Councilmember	12 years	May 2019	Senior Academic Consultant (Baylor University)
Jeff Douglas Councilmember	Newly Elected	May 2020	Animal Control Officer

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of City Service	Length of Total Service
Kevin P. Evans	City Manager	7 years	41 years
Carolyn Baker	Director of Finance	4 years	15 years
Angelia Sloan	City Secretary	10 years	10 years

CONSULTANTS AND ADVISORS

Certified Public Accountants .... M. Vail & Associates, P.C.
Richardson, Texas

Bond Counsel .... Bickerstaff Heath Delgado Acosta LLP
Austin, Texas

Financial Advisor .... Hilltop Securities Inc.
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

$2,090,000
CITY OF MCGREGOR, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018A

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the $2,090,000 City of McGregor, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018A (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Certificates which authorized the issuance of the Certificates (the "Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the City of McGregor, Texas (the "City"), and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated and first adopted its Home Rule Charter in 1979. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two year staggered terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety, sanitation, recreation, fire, streets and general administrative services. The 2010 Census population for the City was 4,987, while the estimated 2018 population is 5,206. The City covers approximately 22 square miles. For more information about the City, see "Appendix A - General Information Regarding the City".

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated as of the August 1, 2018. The Certificates mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Certificates will accrue from the initial date of delivery of the Certificates to the Purchaser, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption. The definitive Certificates will be issued only in fully-registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "The Certificates - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly, Texas Local Government Code, Chapter 271, Subchapter C (the "Certificate of Obligation Act of 1971"), as amended, Subchapter B of Chapter 1502, Texas Government Code, as amended, the City's Home Rule Charter and the Ordinance.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to finance the (1) "Community Facility Project" which consists of the design, renovation, and construction of improvements to the land and facilities located at 109 and 201 West Fourth Street in McGregor, Texas (the land and facilities, together, the "Exchange Property") which are required or suitable for making the Exchange Property usable for entertainment, tourist, and public park purposes and events, with such improvements to include parks and park facilities, open space improvements, related parking facilities, and other related improvements that enhance the use of the Exchange Property for entertainment, tourist, or public park purposes, including the design, rehabilitation, renovation, and expansion of the existing buildings situated on the Exchange Property; and (2) professional services and costs of issuance related thereto (see "The Certificates – Purpose").

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of an annual ad valorem tax, within the limits prescribed by law, upon all taxable property within the City, and (ii) a limited pledge of the Surplus Revenues of the City's Waterworks and Sewer System, not to exceed $1,000. (See "The Certificates - Tax Rate Limitation" and "Tax Information - Effective Tax Rate and Rollback Tax Rate.")

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes. The City's Home Rule Charter authorizes a tax rate up to the constitutionally authorized maximum tax rate of $2.50 per $100 taxable assessed valuation. Administratively, the Attorney General of the State will permit allocation of $1.50 of the $2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2029, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on August 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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

MANDATORY SINKING FUND REDEMPTION . . . The Certificates maturing on August 15 in the years 2032, 2034, 2036 and 2038 (the "Term Certificates") are subject to mandatory sinking fund redemption prior to maturity at the price of par and accrued interest and shall be redeemed, in part, on the date and in the principal amount set forth below:

Term Certificates Due August 15, 2032		Term Certificates Due August 15, 2034		Term Certificates Due August 15, 2036		Term Certificates Due August 15, 2038	
Year	Amount	Year	Amount	Year	Amount	Year	Amount
2031	$ 110,000	2033	$ 115,000	2035	$ 125,000	2037	$ 135,000
2032*	110,000	2034*	120,000	2036*	130,000	2038*	140,000

* Maturity

The particular Term Certificates to be redeemed shall be chosen by the Paying Agent/Registrar, at random by lot or other customary method of random selection, at least forty-five (45) days prior to each mandatory redemption date specified above; provided, however, that the principal amount of the Term Certificates of the stated maturity required to be redeemed on a mandatory redemption date shall be reduced, at the option of the City, by the principal amount of any Term Certificates of like stated maturity which, at least fifty (50) days prior to the mandatory redemption date, (1) shall have been defeased or acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City with money in the Interest and Sinking Fund.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE, PROVIDED THAT MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE AND THE INTEREST ACCRUED ON THE PRINCIPAL AMOUNT TO BE REDEEMED TO THE DATE OF REDEMPTION ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR.

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

DEFEASANCE . . . The Ordinance provides for the defeasance of Certificates when the payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or an authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Government Securities, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. "Government Securities" means (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 their acquisition or purchase by the City, 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 have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations that may be used to defease obligations such as the Certificates under the then applicable laws of the State of Texas.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Government Securities or that any other Government Security will be maintained at any particular rating category.

After firm banking and financial arrangements for the discharge and final payment or redemption 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, that the right to call the Certificates for redemption is not extinguished 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.

AMENDMENTS. . . The City may amend the Ordinance without the consent of or notice to any registered owners of the Certificates in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates, then outstanding, 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, no such amendment, addition, or rescission may (1) make any change in the maturity of any of the outstanding Certificates; (2) reduce the rate of interest borne by any of the outstanding Certificates; (3) reduce the amount of the principal or maturity value of, or redemption premium, if any, payable on any outstanding Certificates; (4) modify the terms of payment or of interest or redemption premium on outstanding Certificates or any of them or impose any condition with respect to such payment; or (5) change the minimum percentage amount of the Certificates necessary to be held by registered owners for consent to such amendment.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Certificates is to be transferred and how the principal of and interest on the Certificates are to be paid to and accredited by DTC 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 believes the source of such information to be reliable, but takes 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 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). One fully registered certificate will be issued for each maturity of the Certificates, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the 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, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 Participant to whose account such Certificates are credited, which may or may not be the Beneficial Owners. The 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 the 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 Paying Agent/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 the 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 the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All 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 dates 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 in 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. All payments on the Certificates 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 shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

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 with respect to the Certificates, printed 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 "The Certificates - Transfer, Exchange and Registration" below.

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

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

PAYMENT PROVISIONS. . . Interest on the Certificates shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent by United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Certificates will be paid to the registered owner at the stated maturity or earlier redemption of a Certificate upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Certificates, all payments will be made as described under "The Certificates - 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 designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business 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 (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a 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.

REPLACEMENT CERTIFICATES . . . If any Certificate is mutilated, destroyed, stolen or lost, a new Certificate in the same principal amount and series as the Certificate so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Certificate, such new Certificate will be delivered only upon surrender and cancellation of such mutilated Certificate. In the case of any Certificate issued in lieu of and substitution for a Certificate which has been destroyed, stolen or lost, such new Certificate will be delivered only (a) upon filing with the Paying Agent/Registrar a certificate to the effect that such Certificate has been destroyed, stolen or lost and proof of ownership thereof, and (b) upon furnishing the Paying Agent/Registrar with indemnity satisfactory to hold the City and the Paying Agent/Registrar harmless. The person requesting the authentication and delivery of a new Certificate must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

CERTIFICATEHOLDERS' REMEDIES . . . Under State law, there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. Although a registered owner could presumably obtain a judgment against the City if a default occurred in any payment of the principal of, or interest on, any such Certificates, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is to seek a mandamus or mandatory injunction proceeding to compel the City to assess and collect an annual ad valorem tax sufficient to pay principal of, and interest on, the Certificates as they become due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, a registered owner may not be able to bring such a suit against the City for breach of the Certificates or the Ordinance. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. As noted above, the Ordinance provides that holders of Certificates may seek 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).

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

The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. 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 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 holders of obligations 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.

SOURCES AND USES OF CERTIFICATE PROCEEDS . . . Proceeds from the sale of the Certificates are expected to be expended as follows:

Sources of Funds		
Par Amount of Certificates	$	2,090,000.00
Reoffering Premium		79,164.40
Total Sources of Funds	$	2,169,164.40
Uses of Funds		
Total Purchaser's Discount	$	20,669.89
Costs of Issuance		48,494.51
Deposit to Project Construction Fund		2,100,000.00
Total Uses of Funds	$	2,169,164.40

TAX INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as (i) personal property acquired or imported into the State and transported to another location inside or outside the State, (ii) stored under a contract for bailment in public warehouses not in any way owned or controlled by the owner of the stored goods, and (iii) 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.

Pursuant to changes enacted during the 2011 Texas Legislative Special Session, all taxing units, including those that have previously taken official action to tax goods-in-transit, may not tax goods-in-transit in the 2012 tax year or thereafter, unless the governing body of the taxing unit holds a public hearing and takes action on or after October 1, 2011, to provide for the taxation of the goods-in-transit. After holding a public hearing, a taxing unit may take official action prior to January 1 of the first tax year in which the governing body proposes to tax goods-in-transit. After taking such official action, the goods-in-transit remain subject to taxation by the taxing unit until the governing body of the taxing unit rescinds or repeals its previous action to tax goods-in-transit. If, however, a taxing unit took official action prior to October 1, 2011 to tax goods-in-transit and pledged the taxes imposed on the goods-in-transit for the payment of a debt, taxes may continue to be imposed on goods-in-transit until the debt is discharged, if cessation of the imposition of the tax would impair the obligation of the contract by which the debt was created.

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.

A city or a county may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, to encourage development and redevelopment within a designated reinvestment zone. Taxes collected from increases in valuation above the base value (the "captured appraised value") by each taxing unit that levies ad valorem taxes on real property in the reinvestment zone may be used to pay costs of infrastructure or other public improvements in the reinvestment zone and to supplement or act as a catalyst for private development in the defined area of the reinvestment zone. The tax increment base value for a taxing unit is the total appraised value of all real property taxable by the taxing unit and located in the reinvestment zone as of January 1 of the year in which the city created the reinvestment zone. Each taxing unit can choose to dedicate all, any portion or none of its taxes collected from the captured appraised value to the costs of improvements in the reinvestment zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the taxing unit for that year on the captured appraised value of real property taxable by the taxing unit and located in the reinvestment zone, multiplied by the taxing unit's percentage level of participation.

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

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("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; provided, however, that no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City may contract with the federal government, the State, another political subdivision, a nonprofit organization or any other entity, including private entities, for the administration of such a program.

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

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

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

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

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

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

PROPERTY ASSESSMENT AND TAX PAYMENT. . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. The valuation assessment of oil and gas reserves depends upon 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 due on February 1 of each year and the final installment due on August 1.

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

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

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

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

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of $5,000.

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

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The City does not tax nonbusiness property and McLennan County collects taxes for the City.

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

The City does tax freeport property.

The City does tax goods-in-transit.

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

Tax Abatement Policy . . . The City has established a tax abatement program to encourage economic development. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement.

Table 1 - Valuation, Exemptions and General Obligation Debt

2017/18 Market Valuation Established by McLennan County Appraisal District (excluding totally exempt property)		$ 401,366,726
Less Exemptions/Reductions at 100% Market Value		
Over 65 and Disabled	$ 2,196,969	
Disabled Veterans	607,840	
Veterans Exemption Loss	2,822,255	
Freeport Exemption Loss	14,305,545	
10% Cap Loss	5,720,627	
Productivity Loss	8,351,990	34,005,226
2017/18 Net Taxable Assessed Valuation		$ 367,361,500
General Obligation Debt Payable From Ad Valorem Taxes (as of 6/15/2018)		
General Obligation Debt	$ 18,241,683	
The Certificates	2,090,000	
City Funded Debt Payable From Ad Valorem Taxes		$ 20,331,683
Less: Self Supporting Debt (1)		$ 11,281,683
Net General Obligation Debt Payable from Ad Valorem Taxes		$ 9,050,000
Interest and Sinking Fund (as of 5/31/2018)		$ 530,410
Ratio Net General Obligation Debt to Net Taxable Assessed Valuation		2.46%

2018 Estimated Population - 5,206

Per Capita Net Taxable Assessed Valuation - $70,565

Per Capita Net Funded Debt - $1,738

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(1) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 153,664,584	38.29%	$ 143,667,155	38.64%	$ 126,504,295	35.81%
Real, Residential, Multi-Family	4,742,695	1.18%	4,641,725	1.25%	4,365,095	1.24%
Real, Vacant Lots/Tracts	3,769,414	0.94%	3,226,360	0.87%	3,151,291	0.89%
Real, Acreage (Land Only)	8,992,730	2.24%	7,234,340	1.95%	6,222,560	1.76%
Real, Farm and Ranch Improvements	9,401,190	2.34%	2,872,200	0.77%	2,314,809	0.66%
Real, Commercial / Industrial	89,736,682	22.36%	81,975,739	22.05%	80,080,081	22.67%
Real and Tangible Personal, Utilities	12,096,411	3.01%	11,643,819	3.13%	11,506,949	3.26%
Tangible Personal, Business	112,126,690	27.94%	109,628,890	29.49%	112,536,850	31.86%
Real Property, Inventory	-	0.00%	-	0.00%	454,780	0.13%
Tangible Personal, Other	361,720	0.09%	399,690	0.11%	441,130	0.12%
Special Inventory	6,474,610	1.61%	6,497,500	1.75%	5,687,500	1.61%
Total Appraised Value Before Exemptions	$ 401,366,726	100.00%	$ 371,787,418	100.00%	$ 353,265,340	100.00%
Less: Total Exemptions/Reductions	34,005,226		34,867,475		44,312,067	
Taxable Assessed Value	$ 367,361,500		$ 336,919,943		$ 308,953,273	

	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 126,097,305	39.71%	$ 112,991,150	25.67%
Real, Residential, Multi-Family	3,825,650	1.20%	3,437,842	0.80%
Real, Vacant Lots/Tracts	3,359,860	1.06%	1,805,044	0.46%
Real, Acreage (Land Only)	6,232,200	1.96%	5,052,807	0.96%
Real, Farm and Ranch Improvements	2,247,509	0.71%	2,364,293	0.41%
Real, Commercial / Industrial	72,889,707	22.95%	66,414,672	13.77%
Real and Tangible Personal, Utilities	10,938,769	3.44%	10,350,049	2.22%
Tangible Personal, Business	86,334,840	27.19%	66,536,650	54.57%
Real Property, Inventory	162,810	0.05%	303,810	0.06%
Tangible Personal, Other	421,870	0.13%	417,180	0.10%
Special Inventory	5,071,160	1.60%	4,692,680	0.97%
Total Appraised Value Before Exemptions	$ 317,581,680	100.00%	$ 274,366,177	100.00%
Less: Total Exemptions/Reductions	28,938,507		18,234,509	
Taxable Assessed Value	$ 288,643,173		$ 256,131,668	

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

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TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Population [(1)]	Taxable Assessed Valuation [(2)]	Per Capita Taxable Assessed Valuation	Tax Supported Debt At End of Fiscal Year[(3)]	Per Capita Funded Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation
2014	5,143	$ 256,131,668	$ 49,802	$ 8,440,805	$ 1,641	3.30%
2015	5,195	288,643,173	55,562	7,916,366	1,524	2.74%
2016	5,179	308,953,273	59,655	14,228,053	2,747	4.61%
2017	5,200	336,919,943	64,792	16,234,683	3,122	4.82%
2018	5,206	367,361,500	70,565	19,532,065 [(4)]	3,752 [(4)]	5.32% [(4)]

(1) Source: City Officials.
(2) As reported by the Appraisal District on the City's annual State Property Tax Reports and excludes total exemptions and reductions; subject to change during the ensuing year.
(3) Includes self-supporting debt.
(4) Projected. Includes the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rates	General Fund	Interest and Sinking Fund	Tax Levy	% of Current Collections	% of Total Collections
2014	$ 0.600000	$ 0.413065	$ 0.186935	$ 1,539,882	98.17%	99.70%
2015	0.595000	0.396142	0.198858	1,713,400	98.11%	99.48%
2016	0.595000	0.407472	0.187528	1,839,333	97.35%	98.21%
2017	0.595000	0.396412	0.198588	2,004,674	98.02%	98.02%
2018	0.594010	0.410714	0.183296	2,182,164	96.70% [(1)]	98.90% [(1)]

(1) Collections as of May 31, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Ferguson Enterprises	Land and Improvements	$ 61,725,711	16.80%
Space X Company	Land and Improvements	27,998,730	7.62%
First National Bank of McGregor	Bank	4,154,750	1.13%
Purina Mills LLC	Animal Feed Manufacturing	4,114,260	1.12%
McClaren John R ETUX	Individual	3,983,850	1.08%
Behlen Manufacturing Co	Manufacturing	3,874,970	1.05%
Transtech Fabrications L.L.C.	Oil & Gas Equipment	3,240,781	0.88%
De Lage Landen Financial Services L.L.C.	Equipment Lease Finance	3,230,900	0.88%
Oncor Electric Delivery	Electric Utility	3,203,030	0.87%
Waco Realty L.L.C.	Real Estate	3,186,810	0.87%
		$ 118,713,792	32.32%

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

TABLE 6 - TAX ADEQUACY[1]

2018 Net Principal and Interest Requirements	$ 577,483
$0.1621 Tax Rate at 97% Collection Produces	577,628
Average Annual Net Principal and Interest Requirements, 2018 - 2038	$ 589,193
$0.1654 Tax Rate at 97% Collection Produces	589,387
Maximum Net Principal and Interest Requirements, 2032	$ 668,805
$0.1877 Tax Rate at 97% Collection Produces	668,851

(1) Includes the Certificates; excludes self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2017/18 Taxable Assessed Value	2017/18 Tax Rate	Total Funded Debt as of 6/15/2018	Estimated % Applicable	City's Overlapping Funded Debt 6/15/2018
City of McGregor	$ 367,361,500	$0.59401	$ 9,050,000 [1]	100.00%	9,050,000 [1]
Coryell County	2,592,756,772	0.54500	-	0.23%	-
McGregor Independent School District	397,117,031	1.33000	25,015,866	74.72%	18,691,855
McLennan County	15,476,710,204	0.50500	26,285,000	2.13%	559,871
McLennan County Junior College	16,550,939,331	0.15000	61,495,000	2.13%	1,309,844
Midway Independent School District	4,417,327,907	1.32000	38,396,965	0.34%	130,550

Total Direct and Overlapping Funded Debt . . . . $ 29,742,119 [1]

Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation . . . . 8.10% [1]

Per Capita Overlapping Funded Debt . . . . $ 5,713 [1]

(1) Includes the Certificates. Excludes self-supporting debt.

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DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 30-Sep	Outstanding Debt Service (1)			The Certificates (2)			Less: Self-Supporting Obligations	Total Net Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total			
2018	$ 807,618	$ 568,996	$ 1,376,614	$ -	$ -	$ -	$ 799,131	$ 577,483	
2019	888,065	643,326	1,531,391	85,000	61,570	146,570	1,049,919	628,042	
2020	874,000	577,377	1,451,377	85,000	64,863	149,863	945,147	656,092	
2021	919,000	546,140	1,465,140	85,000	63,163	148,163	962,660	650,642	
2022	960,000	511,464	1,471,464	85,000	61,463	146,463	963,134	654,792	23.54%
2023	1,020,000	475,161	1,495,161	90,000	59,763	149,763	991,831	653,092	
2024	1,066,000	436,819	1,502,819	90,000	57,963	147,963	994,939	655,842	
2025	1,122,000	394,312	1,516,312	90,000	56,163	146,163	997,132	665,342	
2026	1,157,000	349,440	1,506,440	95,000	54,250	149,250	992,297	663,392	
2027	1,108,000	310,929	1,418,929	95,000	51,400	146,400	896,986	668,342	52.71%
2028	1,149,000	274,870	1,423,870	100,000	48,550	148,550	908,928	663,492	
2029	1,164,000	237,179	1,401,179	100,000	45,550	145,550	878,386	668,343	
2030	980,000	198,080	1,178,080	105,000	42,550	147,550	658,263	667,368	
2031	746,000	164,323	910,323	110,000	39,400	149,400	393,793	665,930	
2032	772,000	140,350	912,350	110,000	35,000	145,000	388,545	668,805	78.95%
2033	793,000	115,531	908,531	115,000	30,600	145,600	393,076	661,055	
2034	824,000	90,016	914,016	120,000	26,000	146,000	392,011	668,005	
2035	850,000	62,980	912,980	125,000	21,200	146,200	395,525	663,655	
2036	765,000	35,119	800,119	130,000	16,200	146,200	372,994	573,325	
2037	140,000	9,619	149,619	135,000	11,000	146,000	295,619	-	98.60%
2038	145,000	4,894	149,894	140,000	5,600	145,600	295,494	-	100.00%
	$ 18,249,683	$ 6,146,922	$ 24,396,605	$ 2,090,000	$ 852,245	$ 2,942,245	$ 14,965,808	$ 12,373,043	

(1) "Outstanding Debt" does not include lease/purchase obligations.
(2) Average life of the Certificates - 11.356 years.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Estimated General Obligation Debt Service Requirements, Fiscal Year Ending 9-30-18		$ 1,376,614
Interest and Sinking Fund Balance, 9-30-17	$ 126,737	
Budgeted Interest and Sinking Fund Tax Levy	671,611	
Transfer from Water Fund	275,431	
Transfer from Wastewater Fund	562,884	
Delinquent, Penalty & Interest	20,002	$ 1,656,665
Estimated Balance, 9-30-18		$ 280,051

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued ad valorem tax bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT. . . After the issuance of the Certificates, the City does not anticipate the issuance of ad valorem tax debt within the next 12 months.

TABLE 11 - OTHER OBLIGATIONS

As of September 30, 2017, a summary of changes in Capital Lease Requirements is as follows:

Asset	Governmental Activities	Proprietary Activities
Machinery and Equipment	$ 3,257,618	$ 886,069
Less: Accumulated Depreciation	(1,637,803)	(423,487)
Total	$ 1,619,815	$ 462,582

As of September 30, 2017, a summary of changes in Notes payable, capital leases, and compensated absences is as follows:

Description and Purpose	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Note Payable to First National Bank of McGregor, payable in quarterly payments of $8,500 including interest at 6.6%, renewed annually, used for airport improvements	$ 158,639	$ -	$ (29,107)	$129,532	$ 30,022
Capital Leases	34,210	-	(15,560)	18,650	16,699
Compensated absences	33,364	28,077	(19,695)	41,746	14,361
Total	$ 226,213	$ 28,077	$ (64,362)	$189,928	$ 61,082

PENSION FUND

Plan Description - The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

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

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

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

Employees are covered by benefit terms.

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

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	53
Active employees	50
Total	133

<u>Contributions</u> – 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 6% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.55% and 10.83% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were $262,793, and were equal to the required contributions.

<u>Net Pension Liability</u> - 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.

<u>Actuarial Assumptions</u>

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

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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 return, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

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 stature. 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 the Net Pension Liability:

	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 6,525,595	$ 5,467,236	$ 1,058,359
Changes for the year:			
Service Cost	336,061	-	336,061
Interest	443,892	-	443,892
Differences between expected and actual experience	(267,540)	-	(267,540)
Changes of assumptions	-	-	-
Contributions - employer	-	243,674	(243,674)
Contributions - employee	-	138,582	(138,582)
Net investment income	-	369,298	(369,298)
Benefit payments, including refunds of employee contributions	(234,882)	(234,882)	-
Administrative expenses	-	(4,173)	4,173
Other changes	-	(225)	225
Net changes	277,531	512,274	(234,743)
Balance at 12/31/2016	$ 6,803,126	$ 5,979,510	$ 823,616

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 1,849,893	$ 823,615	$ (8,789)

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

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

For the year ended September 30, 2017, the City recognized pension expense of $251,153 and the calculation of the expense is summarized in the following table:

Total service cost	$ 336,061
Interest on the total pension liability	443,892
Current period benefit changes	-
Employee contributions (reduction of expense)	(138,582)
Projected earnings on plan investments (reduction of expense)	(369,038)
Administrative expense	4,173
Other changes in fiduciary net position	225
Recognition of current year outflow (inflow) of resources - Liabilities	(82,830)
Recognition of current year outflow (inflow) of resources - assets	(52)
Amortization of prior year outflows (inflows) of resources - Liabilities	(28,454)
Amortization of prior year outflows (inflows) of resources - assets	85,758
Total pension expense	$ 251,153

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 (Inflows) of Resources
Differences between expected and actual economic experience	$ (241,283)
Changes in actual assumptions	23,732
Difference between projected and actual investment earnings	244,405
Contributions subsequent to the measurement date	195,757
Total	$ 222,611

$195,757 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
2018	$ 1,615
2019	53,994
2020	(52)
Thereafter	-
	$ 55,557

FINANCIAL INFORMATION

TABLE 12 - SCHEDULE OF CHANGES IN NET ASSETS

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
REVENUES:					
Program Revenues					
Charges for Services	$ 663,313	$ 686,986	$ 578,729	$ 405,758	$ 1,434,506
Operating Grants and Contributions	-	-	-	-	36,509
Capital Grants and Contributions	-	-	-	36,551	(238,000)
General Revenues					
Property Taxes	2,012,269	1,931,277	1,733,625	1,556,572	1,492,442
Sales Taxes	794,137	806,115	813,304	667,679	566,952
Hotel-Motel Taxes	32,989	22,213	10,003	30,659	12,179
Franchise Taxes	349,614	348,688	335,800	292,585	291,920
Interest	116,256	91,018	9,677	47,736	3,524
Sale of Assets	1,512	2,030	55,502	-	87,665
Land Leases	1,175,469	1,152,840	1,176,021	798,647	-
Miscellaneous	124,958	332,862	257,436	57,885	675,464
Total Revenues	$ 5,270,517	$ 5,374,029	$ 4,970,097	$ 3,894,072	$ 4,363,162
EXPENSES:					
Administrative Services	$ 1,157,753	$ 1,223,412	$ 1,052,375	$ 1,071,192	$ 689,519
Emergency Services	538,399	1,417,828	1,436,745	1,417,876	1,840,992
Community Services	187,700	422,317	457,681	376,790	304,337
Development Services	1,429,388	132,723	377,438	182,845	208,406
Financial Services	195,514	190,523	174,936	171,062	183,412
Municipal Services	1,358,182	1,553,159	956,979	823,860	1,310,704
Interest on Debt Service	693,699	43,998	84,846	65,839	267,061
Total Expenses	$ 5,560,635	$ 4,983,960	$ 4,541,000	$ 4,109,464	$ 4,804,431
Increase (Decrease) in Net Assets Before Transfers	(290,118)	390,069	429,097	(215,392)	(441,269)
Net Transfers	506,894	390,113	(965,915)	(568,047)	(767,173)
Increase (Decrease) in Net Assets	216,776	780,182	(536,818)	(783,439)	(1,208,442)
Net Assets - Beginning	6,786,067	6,005,885	6,542,703 (1)	7,746,833	8,955,276
Prior Period Adjustment	-	-	-	-	-
Net Assets - Ending	$ 7,002,843	$ 6,786,067	$ 6,005,885	$ 6,963,393	$ 7,746,833

(1) Restated.

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TABLE 12A - SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Taxes:					
Property	$ 1,341,426	$ 1,259,597	$ 1,181,198	$ 1,071,167	$ 1,001,807
Sales	794,137	806,115	813,304	667,679	566,952
Franchise	349,614	348,688	335,800	292,585	291,920
Permit Fees	48,912	87,373	38,414	37,413	34,576
Fines/Forfeitures	306,607	276,882	333,518	121,482	134,605
Service Fees	180,382	127,463	112,859	119,456	152,637
Admin Fees	26,516	36,824	33,078	52,874	26,801
Leases/Rentals	-	-	-	481	540
Recreation Fees	45,098	24,137	20,675	68,049	22,869
Donations	304	40,366	50,696	645	3,071
Land Leases	1,175,469	1,152,840	1,176,021	982,058	1,063,937
Miscellaneous Fees	93,492	269,054	192,585	45,061	56,025
Sale of Assets	1,512	2,030	64,602	-	82,565
Interest Earnings	7,135	7,592	4,916	4,117	2,357
Total Revenues	$ 4,370,604	$ 4,438,961	$ 4,357,666	$ 3,463,067	$ 3,440,662
Expenditures:					
Current:					
Administrative Services	$ 881,387	$ 849,624	$ 818,966	$ 863,966	$ 990,151
Community Services	477,548	398,131	361,686	280,520	267,991
Development Services	137,662	119,140	108,942	182,844	208,406
Emergency Services	1,307,839	1,298,039	1,344,639	1,324,371	1,439,520
Financial Services	195,514	185,643	174,936	171,062	176,382
Municipal Services	951,885	748,004	682,279	352,312	298,294
Capital Outlay	575,752	478,631	107,641	714,839	311,825
Debt Service:	40,000	40,000	40,000	77,798	41,917
Total Expenditures	$ 4,567,587	$ 4,117,212	$ 3,639,089	$ 3,967,712	$ 3,734,486
Excess (Deficiency) of Revenues Over Expenditures	$ (196,983)	$ 321,749	$ 718,577	$ (504,645)	$ (293,824)
Other Financing Sources (Uses)					
Transfers In	$ 1,568,574	$ 125,244	$ 123,831	$ 93,742	$ 79,000
Transfers Out	(173,540)	(175,445)	(118,763)	-	-
Debt Proceeds	-	34,065	-	618,936	238,000
Total Other Financing Sources (Uses)	$ 1,395,034	$ (16,136)	$ 5,068	$ 712,678	$ 317,000
Net Increase (Decrease)	1,198,051	305,613	723,645	208,033	23,176
Beginning Fund Balance	2,214,719	1,909,104	1,185,459	977,426	962,074
Prior Period Adjustment	-	-	-	-	(7,824)
Ending Fund Balance	$ 3,412,770	$ 2,214,719	$ 1,909,104	$ 1,185,459	$ 977,426

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. The voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for economic development.

Fiscal Year Ended 30-Sep	1¢ City Collections	1/2¢ EDC Collections	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [1]
2014	$ 663,992	$ 331,996	$ 995,988	43.12%	$ 0.2592	$ 129.11
2015	809,438	404,719	1,214,157	47.24%	0.2804	155.81
2016	804,403	402,202	1,206,605	43.73%	0.2604	155.32
2017	791,906	395,953	1,187,859	39.50%	0.2350	152.29
2018	442,376 [2]	221,188 [2]	663,564	20.27%	0.1204	84.97

(1) Based on population estimates provided by City officials.
(2) Collections as of June 2018.

FINANCIAL POLICIES

Basis of Accounting . . . The City-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

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

General Fund . . . The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

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

Budgetary Procedures . . . The City Council adopts an annual budget for the General Fund, Enterprise Fund, Special Revenue and Debt Service Funds. The annual budget for the General Fund is prepared in accordance with the basis consistent with GAAP, except that depreciation, certain capital expenses, non-operating income and certain non-operating expense items are not considered. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures/expenses must be approved by the City Council. Subsequent to year-end, the City Council adopts an amended budget approving such additional expenditures/expenses. The amended budget for the General Fund is presented in the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund. All annual appropriations lapse at fiscal year-end. The City does not budget for Capital Projects Funds.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the City is authorized to invest in obligations meeting the requirements of the Texas Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA") which may include : (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (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 City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (iv) a loan made under the program is government securities dealer or a financial institution doing business in the State, and (v) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and 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 purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 14 - CURRENT INVESTMENTS

As of May 31, 2018, the City's investable general funds were invested in the following categories:

Description	% of Portfolio	Book Value	Market Value
TexStar[1]	9.13%	$ 597,308	$ 597,308
TexPool	3.22%	210,397	210,397
Logic	87.65%	5,731,317	5,731,317
	100.00%	$ 6,539,022	$ 6,539,022

(1) TexSTAR is a local government investment pool for whom Hilltop Securities Inc. provides customer service and marketing. TexSTAR currently maintains a "AAAm" rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

THE SYSTEM

Operation of the City's Waterworks and Wastewater System is subject to regulation by, among others, the Environmental Protection Agency and the Texas Commission on Environmental Quality. In many cases, regulations promulgated by the agencies have become effective only recently and are subject to future development and revision.

DESCRIPTION OF THE SYSTEM . . . The Waterworks and Wastewater System of the City and accompanying rights of use therein are described below based upon information obtained from the City records.

INTERNAL OPERATIONS . . . The City owns six wells and operates four of them, each of which are capable of producing 1,295 gpm.

WATER PURCHASE CONTRACTS . . . In April of 1980, the City joined six other entities to form the Bluebonnet Water Supply Corporation, a non-profit corporation created to provide treated water to members. Water provided to the entities originates from Lake Belton and is sold to the City at the current rate of $3.07 per thousand gallons.

The City has also contracted to sell to the Central Bosque Water Supply Corporation (CBWSC) up to twenty-two million gallons per year with a minimum of five million gallons per year. CBWSC agrees to pay the City the same price per thousand as it charges its own residential customers and agrees to rate increases at the same rate as to the City's customers.

WASTEWATER SYSTEM . . . The City wastewater treatment plant was constructed and brought on line in 1989 and has a permitted capacity of 1,100,000 gallons per day. Currently, there remains an ample reserve for increases in treatment requirements from development. However, the reserve capacity has been affected by infiltration into sewer transmissions lines.

TABLE 15 - TEN LARGEST WATER CUSTOMERS (AS OF SEPTEMBER 30, 2017)

Customer	Water Usage	% Total Water Usage
SpaceX	$ 56,419,000	11.18%
Behlen Manufacturing	7,673,000	1.52%
Central Bosque Water Supply	6,197,000	1.23%
Mcgregor Nursing Home	3,820,000	0.76%
Mcgregor Lodging LLC	2,432,000	0.48%
JS2 Services	2,113,000	0.42%
Mcgregor Senior Apts	1,663,000	0.33%
City Of Mcgregor-Area J	1,481,000	0.29%
City Of Mcgregor-C3	1,146,000	0.23%
Land O'Lakes Purina Feed	1,112,000	0.22%
	$ 84,056,000	16.66%

TABLE 16 - WATER RATES (EFFECTIVE AS OF OCTOBER 1, 2017)

	Base Rate	
Meter Size	Inside City	Outside City
3/4"	$ 34.25	$ 39.39
1"	57.09	65.65
1.5"	114.18	131.30
2"	182.68	210.08
3"	365.35	420.17
4"	570.88	656.50
6"	1,141.75	1,193.64
8"	1,826.79	2,100.81
CBWSC		$5.41 / Kgal

	Volumetric Rates	
Volume (gallons)	Inside City	Outside City
0 - 2,000	$ 3.61	$ 4.15
2,001 - 25,000	6.38	7.34
25,001 - 50,000	7.24	8.33
Over 50,000	8.21	9.44

TABLE 17 – WATER USAGE

Fiscal Year Ending 9/30	Daily Average	Peak Day Usage	Total Usage	
2013	199,353	1,100,000	72,504,200	
2014	261,234	1,100,000	95,350,245	(1)
2015	557,237	1,100,000	203,391,434	(2)
2016	959,723	1,567,150	447,641,713	
2017	1,295,881	1,665,233	472,996,743	

(1) Beginning Fiscal Year 2014, the City began providing water services to the McGregor Industrial Park. In the same period of time, the City began a routine practice of flushing water hydrants.
(2) In 2015, the City experienced several extensive water main breaks. In addition, the top water customer more than doubled the prior year's demand.

TABLE 18 - SEWER RATES (EFFECTIVE AS OF OCTOBER 1, 2017)

	All Customers	Volume (gallons)	Meter Size	Additional Fees and Charges
Minimum Bill	$ 35.09	0 - 2,000	3/4"	$ 1,500.00
Volumetric Rate (per	3.50	2,001 - 25,000	1"	1,650.00
1,000 gallons)	3.50	25,001 - 50,000	2"	4,100.00
	3.50	Over 50,000	4"	12,200.00
			6"	14,000.00
			8"	16,500.00

Additional fees and charges above are for water taps, not sewer.

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TABLE 19 - CONDENSED STATEMENT OF SYSTEM EARNINGS AND COVERAGE

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
Operating Revenue:					
Charges for Services					
Water Sales	$ 2,307,666	$ 2,093,155	$ 1,988,470	$ 1,831,241	$ 1,869,148
Sewer Charges	1,365,339	1,080,200	1,059,137	1,036,193	985,064
Tap Fees	4,500	31,839	24,100	24,350	26,250
Other Charges	539,102	457,279	459,322	421,476	425,336
Interest Revenue	2,984	-	-	-	-
Total Operating Revenue	$ 4,219,591	$ 3,662,473	$ 3,531,029	$ 3,313,260	$ 3,305,798
Operating Expenses(1):					
Costs of Sales and Services	$ 2,192,853	$ 2,162,637	$ 2,169,291	$ 1,828,971	$ 1,812,495
Administration	639,024	690,068	666,467	657,991	630,280
Total Operating Expenses	$ 2,831,877	$ 2,852,705	$ 2,835,758	$ 2,486,962	$ 2,442,775
Net Available for Debt Service	$ 1,387,714	$ 809,768	$ 695,271	$ 826,298	$ 863,023
Average Annual Debt Service(2)	$ 580,960	$ 527,473	$ 459,853	$ 472,626	$ 303,854
Coverage of Debt	2.39 x	1.54 x	1.51 x	1.75 x	2.84 x
Water Customers	2,025	2,006	1,979	1,966	1,945
Sewer Customers	1,874	1,861	1,823	1,796	1,780

(1) Excludes depreciation and bad debt expense.
(2) Includes general obligation debt service paid from Waterworks & Wastewater System revenue. As of September 30, 2017, the City has no revenue bonds outstanding.

TAX MATTERS

TAX EXEMPTION . . . In the opinion of Bickerstaff Heath Delgado Acosta LLP, Bond Counsel to the City, assuming continuing compliance by the City with the tax covenants described below, under existing law, interest on the Certificates is excludable for federal income tax purposes in the gross income of the owners thereof pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"), and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax imposed on individuals or, except as noted below for tax years beginning before January 1, 2018, corporations pursuant to section 55 of the Code.

For tax years beginning before January 1, 2018, the adjustment for “adjusted current earnings” set forth in Section 56(g) of the Code is required in determining a corporation’s alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the “adjusted current earnings” of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Certificates, would generally be included in computing a corporation’s “adjusted current earnings.” Accordingly, a portion of any interest on the Certificates received or accrued by a corporation that owns the Certificates will be included in computing such corporation’s alternative minimum taxable income for such year. For tax years beginning after December 31, 2017, Public Law 115-97 repealed the corporate alternative minimum tax.

In rendering its opinion, Bond Counsel has relied on the City’s covenants contained in the Ordinance and the City’s covenants contained in the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, relating to, inter alia, the use and investment of proceeds of the Certificates and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Certificates being subject to federal income tax from the date of issue of the Certificates. Bond Counsel has not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date of issuance of the Certificates that may affect the tax-exempt status of the interest.

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES. . . Prospective purchasers of the Certificates should be aware that the ownership of the Certificates may result in collateral federal income tax consequences to certain taxpayers including, without limitation, holders who may be deemed to have incurred or continued indebtedness to acquire or carry tax-exempt obligations, holders of certain interests in a financial asset securitization investment trust, controlled foreign corporations, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals who otherwise qualify for the earned income credit, and to individuals and families that qualify for a premium assistance credit amount under Section 36B of the Code. The Code denies the earned income credit to an individual who is otherwise eligible if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds certain limits set forth in Sections 32(i) and (j) of the Code. Interest on the Certificates will constitute disqualified income for this purpose. The Code also provides that for years beginning after December 31, 2010, the earned income credit is phased out if the modified adjusted gross income of the taxpayer exceeds certain amounts. Interest on the Certificates will be included in determining the modified adjusted gross income of the taxpayer. Section 36B of the Code provides that the amount of the premium assistance credit amount is in part determined by the household income. Section 36B(d) of the Code provides that household income consists of the modified adjusted gross income of the taxpayer and certain other individuals. Modified adjusted gross income means adjusted gross income increased by certain amounts, including interest received or accrued by the taxpayer which is exempt from tax, such as the interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

Section 884 of the Code imposes on certain foreign corporations a branch profits tax equal to thirty percent (30%) of the "dividend equivalent amount" for the taxable year. Interest on the Certificates received or accrued by a foreign corporation subject to the branch profits tax may be included in computing the "dividend equivalent amount" of such corporation.

In addition, passive investment income, including interest on the Certificates, may be subject to federal income taxation under Section 1375 of the Code for any S corporation that has Subchapter C earnings and profits at the close of the taxable year, if more than twenty-five percent (25%) of the gross receipts of such S corporation is passive investment income.

In addition, attention is called to the fact that Section 265(b)(1) of the Code eliminates the interest deduction otherwise allowable with respect to indebtedness deemed incurred by banks, thrift institutions and other financial institutions to purchase or to carry tax-exempt obligations acquired after August 7, 1986 other than designated "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code.

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 original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year. However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, 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, 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 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 bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond 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 bond 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.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Certificates under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

CHANGES IN FEDERAL AND STATE TAX LAW . . . From time to time, there are legislative proposals in the United States Congress and in the states that, if enacted, could alter or amend the Federal and State tax matters referred to above or adversely affect the market value or marketability of the Certificates. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value or marketability of the Certificates.

Prospective purchasers of the Certificates should consult with their own tax advisors regarding any other federal income tax legislation, whether currently pending or proposed, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Certificates and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS. . . Section 265(b) of the Code provides, in pertinent part, that interest paid or incurred by a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b)(3) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a "financial institution" allocable to tax-exempt obligations, other than " private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City has designated the Certificates as "qualified tax-exempt obligations" within the meaning of section 265(b)(3) of the Code. In furtherance of that designation, the City has covenanted to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the $10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."

USE OF A QUALIFIED MANAGEMENT AGREEMENT . . . After the completion of the Community Facility Project, the Exchange Property will be managed on behalf of the City by a 501(c)(3) non-profit corporation under a "Qualified Management Agreement" as defined in IRS Revenue Procedure 2017-13.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Certificates within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") via the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 19 (the "Annual Operating Report"). 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 additionally provide audited financial statements of the City (the "Financial Statements") and such Financial Statements will be provided when and if available, but in any event within 12 months after the end of each fiscal year ending in or after 2018. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such Financial Statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the United States Securities and Exchange Commission (the "*SEC*"), as permitted by the Rule.

The City's current fiscal year end is September 30. Accordingly, the Annual Operating Report must be provided by March 31 in each year, and the Financial Statements must be provided by September 30 of each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

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; (7) modifications to rights of holders of the Certificates, if material; (8) redemption 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 trustee or the change of name of a trustee, if material. Neither the Certificates nor the Ordinance make provisions for debt service reserves, credit enhancement, or liquidity enhancement. 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".

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

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

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notice 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 continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The City became obligated to file notice of certain material events with the nationally recognized municipal securities information repository ("NRMSIR") in an offering that took place in 2010. Due to an administrative oversight the S&P upgrade of the City's underlying rating from "A" to "AA-" on October 4, 2013 was filed with the NRMSIR on December 17, 2015. All information has since been filed including a notice of late filing. The City has implemented procedures to ensure timely filing of all future financial information.

Except as described above, during the last five years, the City has complied in all material respects with its continuing disclosure undertakings entered into pursuant to the Rule.

OTHER INFORMATION

RATINGS

The Certificates and the currently outstanding tax supported debt of the City are rated "AA-" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), without regard to credit enhancement. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the views of S&P and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it 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 such rating, may have an adverse effect on the market price of the Certificates.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

The sale of the Certificates has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provides that the Certificates are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the PFIA requires that the Certificates be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information – Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

No representation is made that the Certificates will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to any such persons or entities or which might otherwise limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such persons or entities to purchase or invest in the Certificates for such purposes.

LEGAL MATTERS

The issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Initial Certificate is a valid and binding obligation of the City payable from sources and secured in the manner provided in the Ordinance authorizing the Certificates. The issuance of the Certificates is also subject to the legal opinion of Bickerstaff Heath Delgado Acosta LLP ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and 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. Bond Counsel's legal opinion will also address the matters described under "Tax Matters" herein. Such opinion will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are contingent upon the sale and delivery of the Certificates. 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.

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.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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 documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Hilltop Securities Inc. will not submit a bid for the Certificates, either independently or as a member of a syndicate organized to submit a bid for the Certificates. Hilltop Securities Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Purchaser") to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of par plus a net premium of $79,164.40 less a Purchaser's discount of $20,669,89. The City can give no assurance that any trading market will be developed for the Certificates 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 sole responsibility of the Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish to the Purchaser a certificate, executed by a proper City officer, acting in such officer's official capacity, to the effect that to the best of such officer's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the Certificates, and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, the 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 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 the 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 the date of the last audited financial statements of the City.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

JAMES S. HERING
Mayor
City of McGregor, Texas

ATTEST:

ANGELIA SLOAN
City Secretary
City of McGregor, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

LOCATION . . . The City of McGregor is located in southwestern McLennan County, 100 miles south of the Dallas-Fort Worth Metroplex and 80 miles north of the City of Austin on State Highway 84, approximately eighteen miles west of Waco. State Highway 84 runs east to west through the City providing direct access to the city of Waco. The City's northern limits adjoin the southern limits of the City of Crawford.

POPULATION AND ECONOMY . . . The City's 2010 census population was 4,987, with the City estimating its 2018 population at 5,206. The City has experienced low stable growth due to a diversified economy, equidistance to large trade centers such as Dallas and Austin and proximity to several lakes. The City's economic base consists of healthcare services, paper products, construction and public administration. McGregor is part of the economically stable Waco area between Dallas and Austin.

FINANCIAL . . . The City is served by two banks, First National Bank and Extraco Banks NA.

CONSTRUCTION . . . Total value of building permits issued during the past five years is as follows:

Fiscal	Residential		Commercial		Grand Totals	
Year Ended	Number of Units	Amount	Number of Units	Amount	Number of Units	Amount
2014	15	$ 1,540,832	3	$ 9,761,708	18	$ 11,302,540
2015	13	1,585,980	4	1,130,000	17	2,715,980
2016	10	1,379,519	12	9,634,858	22	11,014,377
2017	22	1,748,830	17	3,031,766	39	4,780,596
2018 (1)	14	1,068,160	4	4,098,000	18	5,166,160

(1) As of March 31, 2018.

TRANSPORTATION . . . The City of McGregor is presently served by Amtrak and Burlington Northern Santa Fe. The Amtrak station offers free long-term parking and taxi services. Bus service is provided by Greyhound/Trailways Bus System in Waco. Highway transportation is provided by State Highway 84, running east and west and Lone Star Parkway 317.

McGregor Executive Airport is located approximately 8 miles west of McGregor. The Airport offers 5,501 ft. of lighted main runway and 3,484 ft. of adjacent runway as well as 100 based aircraft including one helicopter. On a daily basis, an average of 70 aircraft operations are provided to McGregor. About two thirds of operations are local general aviation. Waco Regional Airport is located 25 miles northwest in the Waco metro area and has 4 lighted runways with services available for single and multi-engine airplanes, jet aircraft and helicopters. Waco Regional is served by American Eagle. The Airport offers daily nonstop flights to Dallas-Fort Worth and Houston Bush Intercontinental Airports.

EDUCATION . . . The McGregor Independent School District provides elementary, middle school and high school educational facilities for the City - McGregor Elementary, H.G. Isbill Junior High School and McGregor High School. The 2017/2018 average daily attendance totaled 1,357 students.

The City is less than 100 miles from 22 colleges or universities each with over 2,000 students. Baylor University is the largest and closest campus to McGregor, located 16 miles from the City. The University has an enrollment of approximately 16,300 students. Central Texas College, 33 miles southeast, and Tarleton State University, 72 miles north, offer campuses with full-time enrollment of over 13,000 students each. McLennan Community College is located 17 miles from the City in Waco and has a full-time enrollment of approximately 8,300 students.

PARKS AND RECREATION . . . Lake Waco and Belton Lake, located 18 miles north and 28 miles south, respectively, of McGregor offer fishing, boating, swimming and picnicking activities. The area lakes also provide camping, RV and recreational facilities.

Mother Neff State Park, the first State Park founded in Texas, is located approximately 6 miles from the City. The Park consists of large gathering facilities and ancient riverside trees.

The City of McGregor manages 5 public parks providing volleyball, horseshoe, jogging, fishing and picnicking facilities. In addition, the McGregor area offers an Aquatic Center, 9 golf courses and a Senior Citizens Center.

HEALTH SERVICES . . . There are three primary medical centers - Providence Health Center, Hillcrest Baptist Medical Center and DePaul Center. Providence Health Center provides a 214-bed campus located in West Waco, approximately 12 miles from the City. The DePaul Center is a psychiatric and substance abuse facility equipped with 64 beds. The Center is located approximately 18 miles from the City and is adjacent to Providence Health Center. Providence Health Center and the DePaul Center are part of the greater Providence Healthcare Network. The Network was the first established hospital in Waco, serving the city since 1905. Hillcrest

Baptist Medical Center, 17 miles from the City, is the largest healthcare facility serving the area, consisting of 236 beds. Hillcrest Baptist has served McLennan County since 1920 and is the only acute inpatient rehabilitation center in the County.

EMPLOYMENT/LABOR FORCE (MCLENNAN COUNTY)

Year	Labor Force	Total Employment	Total Unemployed	Unemployment Rate
2014	112,906	107,210	5,696	5.0%
2015	112,473	107,905	4,568	4.1%
2016	115,893	111,313	4,580	4.0%
2017	118,021	113,478	4,543	3.8%
2018 (1)	118,811	114,514	4,297	3.6%

Source: Texas Employment Commission, Austin, Texas.
(1) Averages through May 2018.

APPENDIX B

EXCERPTS FROM THE

CITY OF MCGREGOR, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of McGregor, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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M.Vail & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AUDIT, TAX AND ADVISORY SERVICES

Michael G. Vail, CPA
Charles T. Gregg, CPA
Don E. Graves, CPA
Dinesh J. Pai, CISA

Members:
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of McGregor, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

1801 Gateway Blvd., Ste. 212, Richardson, TX 75080
Main: 214-660-2000 | Office: 972-234-3333 | Fax: 972-234-3331
www.vailcpas.com

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information for the general fund, Schedule of Contributions, and Schedule of Changes in Net Pension Liability and Related Ratio on pages 11–23 and 58–60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining nonmajor fund financial statements on pages 61-62 and budgetary comparison schedules for Debt Service Funds on page 63 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections on pages 1-7 and 66-92 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reports and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governments Auditing Standards in considering City's internal control over financial reporting and compliance.

M. Cail & Associates, P.C.

Richardson, Texas
March 29, 2018

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Management discussion and analysis (unaudited)

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As management of The City of McGregor, (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017.

Financial Highlights

Government-wide financial statements

- The total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $22,938,186.
- Unresricted net position was $1,725,295; these funds may be used to meet ongoing obligations.
- Total net position increased by $1,425,932.
- Total debt, net of premiums and discounts increased by $1,963,100 or 13%.
- General Obligation bonds for $2,635,000 were issued in 2017. These bonds were for capital improvements for Infrastructure, Water and Wastewater systems, Park improvements and City Hall renovations.
- $807,706 in outstanding debt was retired.
- $991,503 of outstanding debt (principal) is due within one year as of September 30, 2017.

Fund Financial Statements

- Governmental funds reported combined ending fund balance of $10,290,108
  - A increase of $457,159 in fund balance is due primarily to the issuance of 2017 general obligation bonds and the investments in capital improvements during FY 2017.
  - General Fund unassigned fund balance was $3,412,771, or 75% of total general fund expenditures during FY 2017. This represents 9 months of cash for operations at September 30, 2017.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to The City's basic financial statements. The City of McGregor's basic financial statements are comprised of three components:

1) *Government-wide Financial Statements*
2) *Fund Financial Statements, and*
3) *Notes to the Financial Statements*

The basic financial statements present two different views of the City through the use of government-wide statements and fund financial statements. In addition to the basic financial statements this report contains other supplementary information that will enhance the reader's understanding of the financial condition of the City.

Basic Financial Statements

The first two statements (pages 24-26) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the City's financial status.

The next statements (pages 27-33) are **Fund Financial Statements.** These statements focus on the activities of the invididual components within the City government. These statements are more detailed that the government-wide statements. The two sections in the Fund Financial Statements are 1) the Governmental Fund financial statements and 2) the Proprietary Fund financial statements.

Following the Fund Financial Statements, are the notes beginning on page 34. The notes to the financial statements explain in more detail the data contained within the statements. After the notes section, the Required Supplementary Information (pages 58-60) is provided to show additional financial and economic details about the City.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the finances of the City of McGregor, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the City's financial status as a whole.

The Statement of Net Position presents information on all of the City of McGregor's assets and deferred outflows and liabilities and deferred inflows of resources, with the difference between the two 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 of McGregor is improving or deteriorating. The Statement of Net Position combines and consolidates governemental funds current financial resources (short-term spendable resources) with capital assets and long-term obligations. In order to assess the overall health or financial condition of the City, other non-financial factors should be taken into consideration, such as changes in the City's property tax base and the condition of the City's infrastructure.

The Statement of Activities presents information on 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 vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, municipal services (public works), community development, parks and recreation. The business-type activities of the City include water supply and distribution, wastewater collection and treatment, a general purpose airport and an apartment complex.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate McGregor Economic Development Corporation (MEDC) for which the City is financially accountable. Financial information for the MEDC is presented as a discrete component and is not included with the primary government. The MEDC is presented in a separate column in the government-wide financial statements. The MEDC government-wide financial statements can be found in the pages that follow this discussion. Complete financial statements of the MEDC may be obtained at the City's administrative offices.

The government-wide financial statements are on pages 24-26 of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the City's most significant funds. 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. Some funds are required to be established by state law or bond covenants. The City of McGregor, 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 two categories: governmental funds and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the following year. Governmental funds are reported using an accounting method called modified accrual accounting which provdies a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him/her determine if there are more or less financial resources available to finance the City's programs

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

The City of McGregor maintains three major governmental funds and five nonmajor governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the major general fund, debt service fund, and capital projects fund. The nonmajor funds are summarized in the other governmental funds column. The nonmajor funds combining schedules are included in the Combining and Individual Statements and Schedules section of this report.

The City of McGregor adopts an annual appropriated budget for the general fund, debt service, and nonmajor special revenue funds and utility operating funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This comparison can be found in the Required Supplementary Information section of this report.

The Governmental Fund financial statements can be found on pages 27-30 of this report.

Proprietary funds

The City charges customers for the services it provides. These services are generally reported in the proprietary funds. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Position and the Statement of Activiites. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The City of McGregor maintains four enterprise or proprietary funds:

1) water,
2) wastewater,

3) municipal airport and
4) Rachael Arms Apartments.

The proprietary fund financial statements provide information for the water, sewer, municipal airport and Rachael Arms Apartments enterprise funds, all of which are major funds of the City of McGregor.

The basic proprietary fund financial statements can be found on pages 31-33 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. More detailed information on long-term debt activity and capital asset activity is presented in the relevant disclosures in the notes to the financial statements. The notes to the financial statements can be found on the pages immediately following the financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the CIty's budgetary comparison information for the General Fund and progress in funding its obligation to provide pension benefits to its' employees. This presentation of the City's pension liability is based on the adoption of GASB 68, *Accounting and Financial Reporting for Pensions.* Ultimately ten (10) years of data will be displayed in the Required Supplementary sertion of this report.

Accounting Changes

The following statements for the Governmental Accounting Standards Board (GASB) were effective for the City in the fiscal year ending September 30, 2017:

GASB Statement 63, "Financial Reporting of Deferred Outlfows of Resources, Deferred Inflows of Revenues, and Net Position" was issued in June 2011 to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

GASB Statement 65, "Items Previously Reported as Assets and Liabilities" improves financial reporting by clarifying the appropriate use of the elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting.

GASB Statement 66: "Technical Corrections-2012" enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidelines that could diminish th econsistency of financial reporting.

GASB Statement 67: "Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25 improves financial reporting by state and local governmental pension plans.

GASB Statement 68: "Accounting and Financial Reporting for Pensions" establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through plans that are covered by the scope of this Statement as well as for nonemployer governments that have a legal obligation to contribute to those plans.

Government wide Finanacial Anaylysis

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The City’s assiets and deferred outflows of resources exceed liablilities and deferred inflows of resources by $22,938,186 as of September 30, 2017.

The largest portion (88%) of the City’s net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, infrastructure and improvements), less any outstanding debt used to aqquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The unrestricted net position of $1,725,295 may be used to meet the government’s ongoing obligations to the citizens and creditors. At the end of FY 2017, the City of McGregor was able to report positive balances in all three categories of net position (the government as a whole as well as for governmental and business-type activities).

The following table is a comparative summary of net position as of September 30, 2017 and September 30, 2016:

McGregor, TX
Net Position
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 9,962,222	$ 10,614,247	$ 1,556,438	$ 2,090,637	$ 11,518,660	$ 12,704,884
Capital assets, net of accumulated depreciation	14,038,047	12,246,865	16,540,491	15,177,154	30,578,538	27,424,019
Total assets	$ 24,000,269	$ 22,861,112	$ 18,096,929	$ 17,267,791	$ 42,097,198	$ 40,128,903
Deferred outlflows of resources	154,813	320,005	67,798	118,428	222,611	438,433
Total assets and deferred outlfows of resources	24,155,082	23,181,117	18,164,727	17,386,219	42,319,809	40,567,336
Current and Other liabilities	132,552	1,001,890	1,837,946	2183019	1,970,498	3,184,909
Long-term liabilities	16,916,680	15,290,154	391,438	477,013	17,308,118	15,767,167
Total Liabilities	17,049,232	16,292,044	2,229,384	2,660,032	19,278,616	18,952,076
Deferred Inflows of resources	103,007	103,007	-	-	103,007	103,007
Total Liabilities and deferred inflows of resources	17,152,239	16,395,051	2,229,384	2,660,032	19,381,623	19,055,083
Net Position:						
Net investment in capital assets	4,105,894	4,297,188	16,189,001	14,939,638	20,294,895	19,236,826
Restricted	917,996	7,366,461	-	-	917,996	7,366,461
Unrestricted	1,978,952	(4,877,582)	(253,657)	(213,449)	1,725,295	(5,091,031)
Total net position	$ 7,002,842	$ 6,786,067	$ 15,935,344	$ 14,726,189	$ 22,938,186	$ 21,512,256

The $1,425,930 increase to $22,938,186 in total net position is due to increases in both governmental and business-type activities. The increase is mainly attibutable to the sale of the apartment complex. Net investment in capital assets for governmental activities went down $191,294 while net investment in capital assets for the business-type activities increased $1,249,363.

Governmental Activities

Governmental activities decreased net position before transfers by $290,118 and business-type activities increased net position before transfers by $1,716,050 for a net increase in total net position before transfers of $1,425,932. Community services increased $116,082 which can be attributed to hiring additional personnel and additional maintenance and repairs. Emergency services expenses increased $11,560. Key elements of this City wide increase are shown in the following table:

McGregor, TX
Changes in Net Position
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
REVENUES						
Program Revenues:						
Charges for services	$ 663,313	$ 686,986	$ 4,560,587	$ 4,150,396	$ 5,223,900	$ 4,837,382
Capital grants and contributions			50,000	76,992	50,000	76,992
General Revenues:						
Property taxes	2,012,269	1,931,277			2,012,269	1,931,277
Sales taxes	794,137	806,115			794,137	806,115
Franchise taxes	349,614	348,688			349,614	348,688
Hotel-Motel tax	32,989	22,213			32,989	22,213
Interest	116,256	91,018	3,013	426	119,269	91,444
Sale of assets	1,512	2,030	752,699	422,767	754,211	424,797
Land lease	1,175,469	1,152,840			1,175,469	1,152,840
Miscellaneous	124,958	332,862	7,300	6,300	132,258	339,162
Total revenues	5,270,517	5,374,029	5,373,599	4,656,881	10,644,116	10,030,910
EXPENSES						
Governmental acativities:						
Administrative services	1,157,753	1,223,412			1,157,753	1,223,412
Community services	538,399	422,317			538,399	422,317
Development services	187,700	132,723			187,700	132,723
Emergency services	1,429,388	1,417,828			1,429,388	1,417,828
Financial services	195,514	190,523			195,514	190,523
Municipal services	1,358,182	1,553,159			1,358,182	1,553,159
Interest on long-term debt	693,699	43,998			693,699	43,998
Business-type activities:						
Municipal Airport funds			277,360	276,748	277,360	276,748
Rachael Arms Apartments fund			126,124	199,688	126,124	199,688
Waste water fund			721,928	713,562	721,928	713,562
Water fund			2,532,137	2,467,382	2,532,137	2,467,382
Total expenses	5,560,635	4,983,960	3,657,549	3,657,380	9,218,184	8,641,340
Change in net position before special items and transfers	(290,118)	390,069	1,716,050	999,501	1,425,932	1,389,570
Tramsfers	506,894	390,113	(506,894)	(390,113)	-	-
Change in net position	216,776	780,182	1,209,156	609,388	1,425,932	1,389,570
Net position-beginning	6,786,067	6,005,885	14,726,188	14,116,799	21,512,255	20,122,684
Net position-ending	7,002,843	6,786,067	15,935,344	14,726,187	22,938,187	21,512,254

The $290,118 decrease in net position before transfer for the City reflects the increase in interest on long-term debt due to issuance of 2017 bond and decrease in miscellanous revenues related to SpaceX.

Business-type expenses remained relatively constant with an increase of only $169, and business type revenues increased by $716,718 mainly due to the sale of Rachael Arms Apartments. Charges for services increased by 8%.

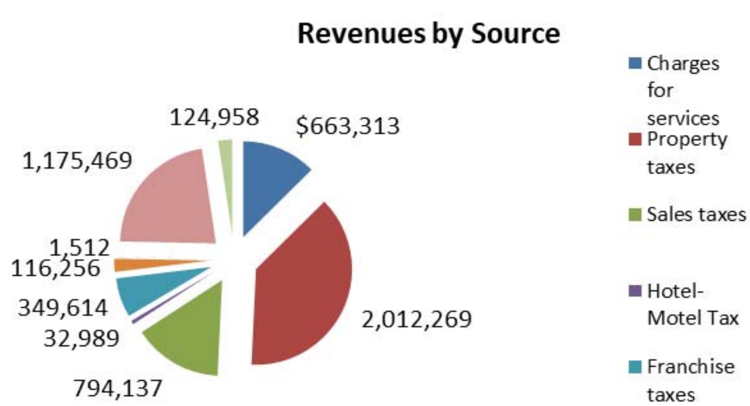
The government-wide presentation of expenses attempts to consolidate all revenues and expenses on a basis similar to a private business. This presentation removes capital spending and principal payments on debt. Govenmental activities expenses increased in FY 2017 compared to FY 2016 by $576,675 to $5,560,635.

Revenues by source – governmental activities

Property taxes, sales taxes, and land leases provide 76% of the revenues for the governmental activities. The pie chart below provides a graphic representation of the City's governmental revenues by source. Administrative services, Emergency services and Municipal services constitute 71% of the expenses for the governmental activities. The bar chart on the next page depicts the graphic representation of the City's expenses and any directly related revenues by source.

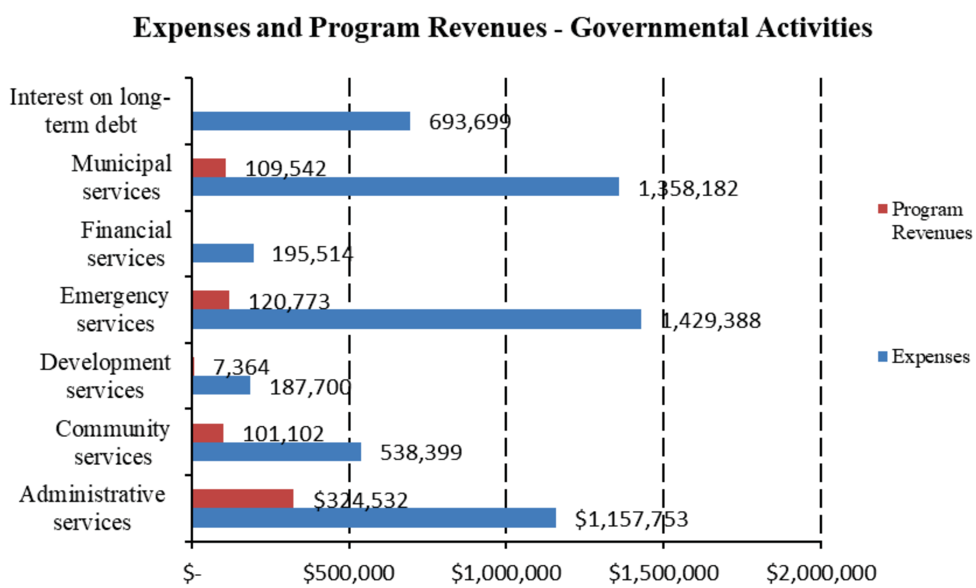
McGregor, TX
Revenues by Source
Governmental Activities
For the Year Ended September 30, 2017

Revenues Source		Revenue	% of Total
Charges for services	$	663,313	12.59%
Property taxes		2,012,269	38.18%
Sales taxes		794,137	15.07%
Hotel-Motel Tax		32,989	0.63%
Franchise taxes		349,614	6.63%
Interest		116,256	2.21%
Sale of Assets		1,512	0.03%
Land lease		1,175,469	22.30%
Miscellaneous		124,958	2.37%
Total	$	5,270,517	100.00%



McGregor, TX
Expenses and Program Revenues
Governmental Activities
For the Year Ended September 30, 2017

Funds	Expenses	% of Total	Program Revenues	% of Total	Net (Expense) Revenue
Administrative services	$1,157,753	20.82%	$324,532	48.93%	$ (833,221)
Community services	538,399	9.68%	101,102	15.24%	(437,297)
Development services	187,700	3.38%	7,364	1.11%	(180,336)
Emergency services	1,429,388	25.71%	120,773	18.21%	(1,308,615)
Financial services	195,514	3.52%			(195,514)
Municipal services	1,358,182	24.42%	109,542	16.51%	(1,248,640)
Interest on long-term debt	693,699	12.48%			(693,699)
Total	$5,560,635	100.00%	$663,313	100.00%	$ (4,897,322)



Revenues by source – business-type activities

Charges for services account for 85% of the revenues for business-type activities. The pie chart found below provides a graphic representation of the City's business-type revenues by source.

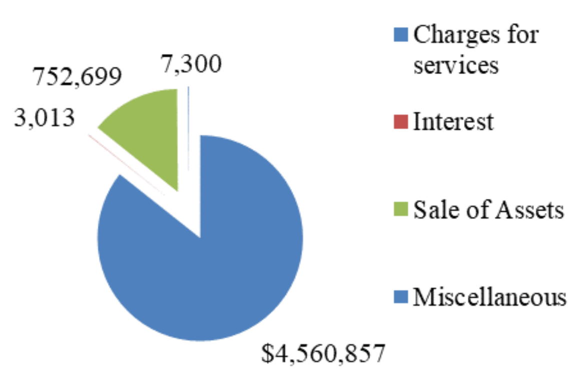
Expenses and program revenues – business-type activities are shown in the bar chart on the next page with Water Fund and Sewer Fund making up 89% of total.

Business-type activities increased the City's net position before contributions and transfers by $1,716,050.

McGregor, TX
Revenues by Source
Business-Type Activities
For the Year Ended September 30, 2017

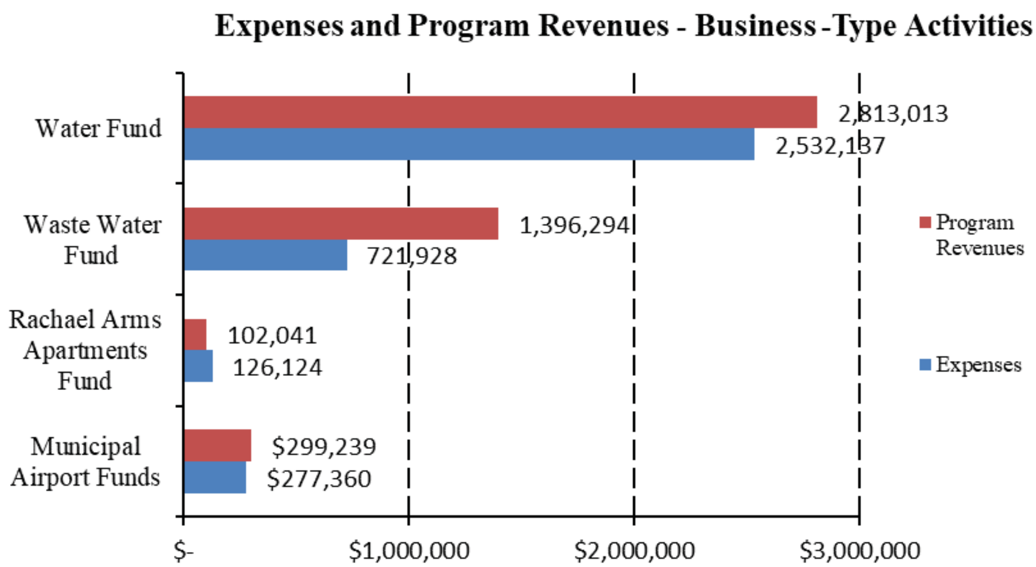
Revenues Source	Revenue	% of Total
Charges for services	$ 4,560,857	85.67%
Interest	3,013	0.06%
Sale of Assets	752,699	14.14%
Miscellaneous	7,300	0.14%
Total	$ 5,323,869	100.00%

Revenues by Source



McGregor, TX
Expenses and Program Revenues
Business-Type Activities
For the Year Ended September 30, 2017

Funds	Expenses	% of Total	Program Revenues	% of Total	Net (Expense) Revenue
Municipal Airport Funds	$ 277,360	7.58%	$ 299,239	6.49%	$ 21,879
Rachael Arms Apartments Fund	126,124	3.45%	102,041	2.21%	(24,083)
Waste Water Fund	721,928	19.74%	1,396,294	30.28%	674,366
Water Fund	2,532,137	69.23%	2,813,013	61.01%	280,876
Total	$3,657,549	100.00%	$4,610,587	100.00%	$ 953,038



Financial Analysis of the City's Funds

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 spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

- General Fund

  The General Fund is the primary governmental fund of the City of McGregor. The fund balance of the General Fund increased by $1,198,051 during FY 2017 as compare to an increase of $305,613 in FY 2016. Revenues decreased $68,357 and expenditures increased $450,375 in FY 2017.

Expenditures were in excess of revenues by $196,983. Transfers in and out of the fund netted 1,395,034. Increases in expenditures in FY 2017 are primarily capital outlays and one-time items including two commerical builidngs. At the end of the current fiscal year, the City's governmental funds reported combined ending fund blalaces of $10,290,108, an increase of $457,159.
The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unassigned fund balance of the general fund was $3,412,771. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total general fund expenditures. Unassigned fund balance represents 75% of total general fund expenditures.
Debt Service Fund

The Debt Service Fund ended the fiscal year with a total fund balance of $126,737 compared to $136,235 at the end of FY 2016. This fund balance is restricted for the payment of debt. Tax revenues in the Debt Service Fund increased $92,595 to $671,784. Debt service payments from the fund totaled $1,388,083. Debt service payments are supported by transfers from the water and wastewater funds of $706,801.

- Capital Project Funds

  In FY 2017 Certificates of Obligation were issued for $2,635,000 for city-wide street improvements, waterworks and wastewater system improvements, city hall renovations, and city park improvements. In FY 2017 the fund balance saw a decrease of $905,170. All of the fund balance is available for capital projects.

- Non-Major Funds

  The Non-Major Funds include the Hotel and Motel Tax Fund, the Court Technology fund, the Court Building Security fund, the Industrial Park Development fund and the Cemetery fund. The fund balances in the total non-major funds increased $173,775.

Proprietary Funds

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

Unrestricted net position of the water, sewer, airport and Rachael Arms Apartments funds at the end of the current fiscal year amounted to $(253,657). Net position increased $1,209,155 from the prior year. The increase was due primarily to the sale of Rachael Arms Apartment complex. Other factors regarding the finances were addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

General Fund revenues are mainly derived from taxes, charges for services, fines and land leases. Other miscellaneous revenues are from the sale of assets, after hours testing penalties and other items. Property taxes in the General Fund are derived from the mainenance and operations ("M&O") portion of the tax rate. The M&O rate in effect for FY 2017 was 0.396412 per $100 of valuation. The adopted tax rate for FY 2017 was $0.595000 per $100 of valuation. The remainder of the tax rate is used to fund the City's debt service and is the interest and sinking (I&S) rate. The I&S rate for FY 2017 was $0.198588 per $100 of valuation.

Total General Fund revenues for FY 17 were $4,370,604 and were $68,357 less than FY 2016. Tax revenues for General Fund include property tax, sales tax, franchise tax and mixed beverage tax. General Fund tax revenues were $72,777 higher than last fiscal year.

Other categories of revenues in General Fund include fines and court fee, licenses and permits, interest, other revenues. Fines and court fees are up $29,725 as compared to FY 2016 while licenses and permits are down $38,461 and interest is down $457.

Total General Fund activities are broken down into the following main categories:

- Administrative services – This category includes City Manager, City Council, City Secretary, Human Resources, engineering, legal and consulting services.
- Development services – This category includes community devlopment, permits and inspections
- Community services – This category includes parks, code enforcement and cemetery
- Municipal services – This category includes fleet maintenance and the street department
- Emergency services – This category includes the Police department and MVFD
- Financial services – This category includes the finance department

General Fund expenditures, including capital purchases, for the year totaled $4,567,857 and were $507,937, or 13% over budget. Compared to FY 2016, expenditures were up by $450,375, or 11%.

Capital Asset and Debt Administration

Capital Assets

The City of McGregor's investment in capital assets for its governmental and business-type activities as of September 30, 2017 amounts to $30,578,537 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, water and sewer system, and construction in progress.

McGregor, TX
Comparative Statement of Capital Assets
September 30, 2017 and 2016

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	3,491,011	3,491,011	793,565	795,302	4,284,576	4,286,313
Construction in progress	2,156,363	200,063	1,262,299	411,980	3,418,662	612,043
Building and improvements	5,319,651	5,293,066	671,180	604,561	5,990,831	5,897,627
Machinery & equipment	1,619,815	1,816,421	462,582	471,166	2,082,397	2,287,587
Intangible assets	63,239	76,102	24,673	26,916	87,912	103,018
Infrastructure	1,387,968	1,370,203	13,326,191	12,867,224	14,714,159	14,237,427
Capital assets, net	14,038,047	12,246,866	16,540,490	15,177,149	30,578,537	27,424,015

Additional information on the City's capital assets can be found in note 3.A.4 of this report.

Long-term Debt

At the end of the 2016 fiscal year, the City had total bonded debt outstanding of $14,228,691. All debt service payments were made in 2017 and new debt was issued in the amount of $ 2,635,000.

Additional information on the City's long-term debt can be found in note 4.B.1,2,3 and 4.D of this report.

Economic Factors and Next Year's Program of Services (Budget) and Rates

Growth in tax base – net taxable values increased from $ $302,899,503 in FY 2016, to $ 336,919,943 in FY 2017 for a net increase of $34,020,440, or 11.23%. The increase included new value market of $2,621,900.

The overall property tax rate remained steady at $0.594 per $100 in FY 2017. Growth in the tax base valuation resulted in a 9.24% increase in the overall tax levy, from $1,839,333 in FY 2016 to $2,009,296 in FY 2017.

The FY 2017 adopted General Fund budget included a 3.2% increase in expenditures as compared to the FY 2016 budget. This increase was for the purchase of property and capital assets.

The FY 2018 adopted General Fund budget includes a modest 3.8% increase in expenditures from the FY 2017 adopted budget. The increase is mainly for purchase of additional capital and increases in personnel costs. In total, the City's adopted FY 2018 general fund budget includes a beginning fund balance of $3,412,770 and a projected ending fund balance of $1,980,000. The decrease is due to transfer of funds from sale of apartment complex to water and wastewater funds.

Component Unit

The government-wide financial statements for the McGregor Economic Development Corporation (MEDC), a component unit of the City of McGregor, are included in this report. Separate financial statements including fund statements for the MEDC are available at the City's administrative offices.

Component Unit Financial Highlights

- The assets of the MEDC exceeded its liabilities by $627,626 at September 30, 2017
- Net position decreased $155,558 in comparison with the prior year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City of McGregor's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, 302 S. Madison, PO Box 192, McGregor, Texas, 76657.

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Basic Financial Statements

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McGregor, TX
Statement of Net Position
September 30, 2017

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	McGregor Economic Development Corporation
ASSETS				
Current assets:				
Cash and cash eqivalents	$ 2,887,415	$ 1,034,996	$ 3,922,411	$ 555,210
Cash held for capital projects	6,241,341	-	6,241,341	-
Receivables (net of allowance for uncollectibles)	832,190	521,442	1,353,632	88,638
Other current asset	1,276	-	1,276	-
Total current assets	9,962,222	1,556,438	11,518,660	643,848
Noncurrent assets:				
Land	3,491,011	793,565	4,284,576	-
Airport	-	4,968,110	4,968,110	-
Construction in progress	2,156,363	1,262,299	3,418,662	-
Water and sewer system	-	13,857,187	13,857,187	-
Other capital assets	17,561,469	3,516,035	21,077,504	-
Accumulated depreciaiton	(9,170,796)	(7,856,705)	(17,027,501)	-
Total noncurrent assets	14,038,047	16,540,491	30,578,538	-
Total assets	24,000,269	18,096,929	42,097,198	643,848
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows of resources	154,813	67,798	222,611	-
Total deferred outflows of resources	154,813	67,798	222,611	-
Total assets and deferred outflows of resources	24,155,082	18,164,727	42,319,809	643,848
LIABILITIES				
Current liabilities:				
Accounts payable and other current liabilities	449,877	202,960	652,837	16,222
Customer deposits	-	179,689	179,689	-
Internal Balances	(1,394,215)	1,394,215	-	-
Accrued interest payable	85,695	-	85,695	-
Due within one year	991,195	61,082	1,052,277	-
Total current liabilities	132,552	1,837,946	1,970,498	16,222
Noncurrent liabilities:				
Due in more than one year	16,319,371	165,131	16,484,502	-
Net pension liabilty	597,309	226,307	823,616	-
Total noncurrent liabilities	16,916,680	391,438	17,308,118	-
Total liabilities	17,049,232	2,229,384	19,278,616	16,222
DEFERRED INFLOWS OF RESOURCES				
Deferred revenues	103,007	-	103,007	-
Total deferred inflows of resources	103,007	-	103,007	-
Total liabilites and deferred inflows of resources	17,152,239	2,229,384	19,381,623	16,222
NET POSITION				
Net investment in capital assets	4,105,894	16,189,001	20,294,895	-
Restricted for:				
Debt Service	126,736	-	126,736	-
Special Purpose	791,260	-	791,260	-
Unrestricted	1,978,952	(253,657)	1,725,295	627,626
Total net position	$ 7,002,842	$ 15,935,344	$ 22,938,186	$ 627,626

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Activities
For the Year Ended September 30, 2017

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Administrative services	$ 1,157,753	$ 324,532	$ -	$ -
Community services	538,399	101,102	-	-
Development services	187,700	7,364	-	-
Emergency services	1,429,388	120,773	-	-
Financial services	195,514	-	-	-
Municipal services	1,358,182	109,542	-	-
Interest on long-term debt	693,699	-	-	-
Total governmental activities	5,560,635	663,313	-	-
Business-type activities:				
Municipal Airport Funds	277,360	249,239	-	50,000
Rachael Arms Apartments Fund	126,124	102,041	-	-
Waste Water Fund	721,928	1,396,294	-	-
Water Fund	2,532,137	2,813,013	-	-
Total business-type activities	3,657,549	4,560,587	-	50,000
Total primary government	$ 9,218,184	$ 5,223,900	$ -	$ 50,000
Component units:				
Economic Development Corp	$ 558,038	$ -	$ -	$ -
Total component units	$ 558,038	$ -	$ -	$ -

General revenues:
Property taxes
Sales taxes
Hotel-Motel Tax
Franchise taxes
Interest
Sale of Assets
Land lease
Miscellaneous
Transfers
Total general revenues, special items, and transfers
Change in net position
Net position - beginning
Net position - ending

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Activities
For the Year Ended September, 2017

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	McGregor Economic Development Corporation
$ (833,221)	$ -	$ (833,221)	$ -
(437,297)	-	(437,297)	-
(180,336)	-	(180,336)	-
(1,308,615)	-	(1,308,615)	-
(195,514)	-	(195,514)	-
(1,248,640)	-	(1,248,640)	-
(693,699)	-	(693,699)	-
(4,897,322)	-	(4,897,322)	-
-	21,879	21,879	-
-	(24,083)	(24,083)	-
-	674,366	674,366	-
-	280,876	280,876	-
-	953,038	953,038	-
(4,897,322)	953,038	(3,944,284)	-
$ -	$ -	$ -	$ (558,038)
-	-	-	(558,038)
2,012,269	-	2,012,269	-
794,137	-	794,137	395,953
32,989	-	32,989	-
349,614	-	349,614	-
116,256	3,013	119,269	2,257
1,512	752,699	754,211	-
1,175,469	-	1,175,469	-
124,958	7,300	132,258	4,270
506,894	(506,894)	-	-
5,114,098	256,118	5,370,216	402,480
216,776	1,209,156	1,425,932	(155,558)
6,786,067	14,726,188	21,512,255	783,185
$ 7,002,843	$ 15,935,344	$ 22,938,187	$ 627,627

The accompanying notes are an integral part of this statement.

McGregor, TX
Balance Sheet
Governmental Funds
September 30, 2017

	General Fund	Debt Service Funds	Capital Project Funds	Total Nonmajor Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 1,975,621	$ 126,736	$ 6,241,341	$ 785,058	$ 9,128,756
Property taxes receivable	64,255	28,868	-	-	93,123
Sales taxes receivable	151,276	-	-	-	151,276
Receivables (net of allowance for uncollectibles)	9,792	-	-	8,264	18,056
Due from other funds	1,394,215				1,394,215
Franchise taxes receivable	9,305	-	-	-	9,305
Municipal court receivable	560,428	-	-	-	560,428
Other assets	1,276	-	-	-	1,276
Total assets	$ 4,166,168	$ 155,604	$ 6,241,341	$ 793,322	$ 11,356,435
LIABILITIES					
Accounts payable and other current liabilities	165,815	-	282,000	2,062	449,877
Unearned revenues	587,583	28,868	-	-	616,451
Total liabilities	753,398	28,868	282,000	2,062	1,066,328
FUND BALANCES					
Restricted	-	126,736	5,959,341	791,260	6,877,337
Unassigned	3,412,771	-	-	-	3,412,771
Total fund balances	$ 3,412,771	$ 126,736	$ 5,959,341	$ 791,260	$ 10,290,108
Total liabilities and fund balances	$ 4,166,169	$ 155,604	$ 6,241,341	$ 793,322	$ 11,356,436

The accompanying notes are an integral part of this statement.

McGregor, TX
Reconciliation of Balance Sheet
To the Statement of Net Position
September 30, 2017

Fund balances of governmental funds	$10,290,108
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,038,047
Long-term liabilities, including bonds payable, leases payable, net pension liability, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(17,907,875)
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements	513,444
Accrued interest payable are not due in the current period and therefore are not reported in the funds	(85,695)
Deferred outflows of resources in governmental activities are not financial resources and, therefore, are not reported in the funds.	154,813
Net position of governmental activities	$7,002,842

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2017

	General Fund	Debt Service Funds	Capital Project Funds	Total Nonmajor Funds	Total Governmental Funds
REVENUES					
Property taxes	$ 1,341,426	$ 670,843	$ -	$ -	$ 2,012,269
Sales taxes	794,137	-	-	-	794,137
Franchise taxes	349,614	-	-	-	349,614
Permits and fees	48,912	-	-	-	48,912
Fines/forfeitures	306,607	-	-	8,646	315,253
Service fees	180,382	-	-	-	180,382
Administrative fees	26,516	-	-	-	26,516
Recreation fees	45,098	-	-	-	45,098
Donations	304	-	-	-	304
Interest earnings	7,135	941	76,576	31,605	116,257
Land leases	1,175,469	-	-	-	1,175,469
Miscellaneous income	93,492	-	-	29,600	123,092
Sale of Assets	1,512	-	-	-	1,512
Hotel-Motel Tax	-	-	-	32,989	32,989
Total revenues	4,370,604	671,784	76,576	102,840	5,221,804
EXPENDITURES					
Current:					
Administrative services	881,387	1,150	-	21,000	903,537
Community services	477,548	-	-	33,504	511,052
Development services	137,662	-	6,914	43,124	187,700
Emergency services	1,307,839	-	-	-	1,307,839
Financial services	195,514	-	-	-	195,514
Municipal services	951,885	-	60,030	-	1,011,915
Debt service:					
Administrative charges	-	-	97,433	-	97,433
Interest	-	673,075	-	-	673,075
Principal retirement	40,000	713,858	-	-	753,858
Capital outlay:					
Administrative services	338,919	-	-	-	338,919
Community services	80,445	-	-	4,977	85,422
Emergency services	108,433	-	-	-	108,433
Municipal services	47,955	-	1,846,320	-	1,894,275
Total expenditures	4,567,587	1,388,083	2,010,697	102,605	8,068,972
Excess (deficiency) of revenues over expenditures	(196,983)	(716,299)	(1,934,121)	235	(2,847,168)
OTHER FINANCING SOURCES (USES)					
Debt Proceeds	-	-	2,635,000	-	2,635,000
Premium on bond issuance	-	-	162,433	-	162,433
Transfers out	(173,540)	-	(1,768,481)	-	(1,942,021)
Transfers in	1,568,574	706,801	-	173,540	2,448,915
Total other financing sources (uses)	1,395,034	706,801	1,028,952	173,540	3,304,327
Net change in fund balances	1,198,051	(9,498)	(905,169)	173,775	457,159
Fund balances - beginning	2,214,719	136,235	6,864,511	617,484	9,832,949
Fund balances - ending	$ 3,412,770	$ 126,737	$ 5,959,342	$ 791,259	$ 10,290,108

The accompanying notes are an integral part of this statement.

McGregor, TX
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances to the Statement of Activities
For the Year Ended September 30, 2017

Net change in fund balances - total governmental funds	$457,159
Amounts reported for governmental activities in the statement of net position are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation ($635,868) was less than the increase in capital assets ($2,427,050) in the current period.	1,791,182
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report, as expenditures, the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,018,843)
Pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(11,183)
Certain revenues and expenditures in the government-wide statement of activities that do not use or provide current financial resources are not reported as revenues and expenditures in the governmental funds.	(1,538)
Change in net position of governmental activities	$216,777

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business-type Activities				
	Water Fund	Waste Water Fund	Municipal Airport Funds	Rachael Arms Apartments Fund	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	$ 426,577	$ -	$ 608,419	$ -	$ 1,034,996
Receivables (net of allowance for uncollectibles)	322,168	194,398	4,875	-	521,441
Total current assets	748,745	194,398	613,294	-	1,556,437
Noncurrent assets:					
Land	46,170	187,867	559,527	-	793,564
Construction in progress	734,171	528,128	-	-	1,262,299
Water and sewer system	7,581,276	6,275,912	-	-	13,857,188
Airport	-	-	6,574,095	-	6,574,095
Other capital assets	324,796	667,732	917,522	-	1,910,050
Less: accumulated depreciation	(3,813,489)	(1,400,907)	(2,642,310)	-	(7,856,706)
Total noncurrent assets	4,872,924	6,258,732	5,408,834	-	16,540,490
Total assets	5,621,669	6,453,130	6,022,128	-	18,096,927
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows of resources	36,188	26,325	5,284	-	67,797
Total deferred outflows of resources	36,188	26,325	5,284	-	67,797
Total assets and deferred outflows of resources	5,657,857	6,479,455	6,027,412	-	18,164,724
LIABILITIES					
Current liabilities:					
Accounts payable and other current liabilities	175,340	23,207	4,413	-	202,960
Customer and tenant deposits	170,189	-	9,500	-	179,689
Compensated absences - current	9,619	2,590	2,152	-	14,361
Notes payable - current	-	-	30,022	-	30,022
Capital lease-current	8,350	8,350	-	-	16,700
Due to other funds	696,515	697,700	-	-	1,394,215
Total current liabilities	1,060,013	731,847	46,087	-	1,837,947
Noncurrent liabilities:					
Net pension liability	127,891	78,717	19,699	-	226,307
Notes payable	-	-	128,618	-	128,618
Compensated absences	16,934	1,718	352	-	19,004
Capital lease-long term	8,755	8,755	-	-	17,510
Total noncurrent liabilities	153,580	89,190	148,669	-	391,439
Total liabilities	1,213,593	821,037	194,756	-	2,229,386
DEFERRED INFLOWS OF RESOURCES					
Total deferred inflows of resources	-	-	-	-	-
Total liabilities and deferred inflows of resources	1,213,593	821,037	194,756	-	2,229,386
NET POSITION					
Net investment in capital assets	4,697,180	6,241,627	5,250,194	-	16,189,001
Unrestricted	(252,913)	(583,208)	582,464	-	(253,657)
Total net position	$4,444,267	$ 5,658,419	$ 5,832,658	$ -	$15,935,344

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2017

	Business-type Activities				
	Water Fund	Waste Water Fund	Municipal Airport Funds	Rachael Arms Apartments Fund	Total Enterprise Funds
OPERATING REVENUES					
Service fees	$ 1,245	$ -	$ -	$ -	$ 1,245
Leases/rentals	-	-	33,652	-	33,652
Water sales	2,307,666	-	-	-	2,307,666
Sewer charges	-	1,365,339	-	-	1,365,339
Solid waste	361,379	-	-	-	361,379
Hangar rent	-	-	175,420	-	175,420
Flowage fees	-	-	18,447	-	18,447
Apartment rent	-	-	-	88,775	88,775
Penalties and late charges	56,424	24,025	-	122	80,571
Tap fees	3,300	1,200	-	-	4,500
Miscellaneous income	90,299	5,730	21,721	13,144	130,894
Total operating revenues	2,820,313	1,396,294	249,240	102,041	4,567,888
OPERATING EXPENSES					
Salaries and benefits	463,841	175,183	68,061	37,979	745,064
Supplies and maintenance	138,835	129,810	7,772	16,042	292,459
Contractual services	1,571,549	152,380	21,450	11,025	1,756,404
Utilities	115,867	82,779	7,754	61,078	267,478
Miscellaneous expenses	1,399	234	-	-	1,633
Depreciation	239,247	180,142	167,226	-	586,615
Total operating expenses	2,530,738	720,528	272,263	126,124	3,649,653
Operating income (loss)	289,575	675,766	(23,023)	(24,083)	918,235
NONOPERATING REVENUES (EXPENSES)					
Interest earnings	2,984	-	28	-	3,012
Interest expense	(1,400)	(1,400)	(5,097)	-	(7,897)
Sale of Assets	-	-	-	752,699	752,699
Total nonoperating revenues (expenses)	1,584	(1,400)	(5,069)	752,699	747,814
Income (loss) before contributions and transfers	291,159	674,366	(28,092)	728,616	1,666,049
Capital contributions	-	-	50,000	-	50,000
Transfers in	734,171	1,034,310	-	-	1,768,481
Transfers out	(275,074)	(555,727)	-	(1,444,574)	(2,275,375)
Change in net position	750,256	1,152,949	21,908	(715,958)	1,209,155
Total net position - beginning	3,694,011	4,505,470	5,810,750	715,958	14,726,189
Total net position - ending	$4,444,267	$ 5,658,419	$ 5,832,658	$ -	$15,935,344

The accompanying notes are an integral part of this statement.

McGregor, TX
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2017

	Business-type Activities - Enterprise Funds				
	Water	Wastewater	Municipal Airport	Rachael Arms Apartments	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash receipts from customer	$2,793,758	$ 1,352,189	$ 244,365	$ 143,133	$4,533,445
Payments to employees	(448,836)	(173,469)	(67,949)	(47,724)	(737,978)
Payments from (to) interfund	(235,483)	(210,465)	-	-	(445,948)
Payments to suppliers	(1,705,596)	(349,019)	(48,195)	(111,651)	(2,214,461)
Net cash provided by operating activities	403,843	619,236	128,221	(16,242)	1,135,058
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfer from other funds	734,171	1,034,310	-	-	1,768,481
Transfer to other funds	(275,074)	(555,727)	-	(1,444,574)	(2,275,375)
Net cash (used) by Noncapital financing	459,097	478,583	-	(1,444,574)	(506,894)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Capital grants	-	-	50,000	-	50,000
Acquisition of capital assets	(853,758)	(1,088,639)	(83,937)	-	(2,026,334)
Principal and interest paid on capital debt	(9,182)	(9,180)	(34,204)	-	(52,566)
Net cash (used) by capital and related financing activities	(862,940)	(1,097,819)	(68,141)	-	(2,028,900)
CASH FLOWS FROM INVESTING ACTIVITIES					
Sale of asset	-	-	-	829,081	829,081
Investment income	2,984	-	28	-	3,012
Net cash provided by investing activities	2,984	-	28	829,081	832,093
Net Increase (decrease) in cash and cash equivalents	2,984	-	60,108	(631,735)	(568,643)
Cash and cash equivalents - beginning	423,593	-	548,311	631,735	1,603,639
Cash and cash equivalents - ending	$ 426,577	$ -	$ 608,419	$ -	$1,034,996

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

	Water	Wastewater	Municipal Airport	Rachael Arms Apartments	Total Enterprise Funds
Operating income (loss)	289,575	675,766	(23,023)	(24,083)	918,235
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation	239,247	180,142	167,226	-	586,615
Changes in assets and Liabilities:					
Increase (decrease) in accounts payable	109,642	16,184	(11,619)	(6,706)	107,501
Increase (decrease) in net pension liability	(22,631)	(9,172)	(4,123)	(16,002)	(51,928)
Increase (decrease) in compensated absences	10,069	(287)	(788)	(611)	8,383
(Increase) decrease in customer receivables	(26,555)	(44,105)	(4,875)	41,092	(34,443)
(Increase) decrease in deferred outflows of resources	27,567	11,173	5,023	6,868	50,631
Increase (decrease) in other operating payables	(223,071)	(210,465)	400	(16,800)	(449,936)
Net cash provided by operating activities	$ 403,843	$ 619,236	$ 128,221	$ (16,242)	$1,135,058

The accompanying notes are an integral part of this statement.

1. Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The most significant of the government's accounting policies are described below.

A. Reporting Entity

The City of McGregor, Texas (City) was incorporated under the laws of the State of Texas. The City operates under a Council-Manager form of government as provided by the Home Rule Charter, and provides the following services: emergency services (police and fire), municipal services (streets), community services (recreation), development services (planning and zoning and code enforcement), and general administrative and finance services. Other services include water and sewer operations and sanitation. The City also operates the municipal airport and Rachael Arms Apartments. Fire protection is provided by the McGregor Volunteer Fire Department. The City, for financial purposes, includes all of the funds relevant to the operations of the City of McGregor.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Component units of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the City.

Discretely Presented Component Unit

The City of McGregor Economic Development Corporation (EDC), although legally separate from the City, provides services for the benefit of the City and its residents under the Development Corporation Act of 1979 as defined in Section 4B of the Act. It is responsible for certain economic development expenditures benefiting all citizens of the government and is financed by a portion of sales tax revenue and is governed by a board of directors that are appointed by and serve at the discretion of the City Council. The EDC is reported as a governmental entity and its accounts are maintained on the modified accrual basis of accounting. Since the EDC is a component of the City, the City is financially accountable for the EDC because the City Council approves the EDC's budget, levies sales taxes, and must approve any debt issuances. Complete financial statements for the EDC may be obtained at the City's administrative offices.

B. Government-wide and Fund Financial Statements

1) Reconciliation of Balance Sheet to the Statement of Net Position

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the government-wide statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. The differences between the Balance Sheet and the Statement of Net Position are as follows:

Fund balance of governmental funds	$10,290,108
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Land	3,491,011
Construction in progress	2,156,363
Buildings and improvements	8,879,076
Machinery and equipment	3,257,618
Intangible assets	470,532
Infrastructure	4,954,243
Less: Accumulated depreciation	(9,170,796)
	14,038,047
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(16,235,321)
Capital leases	(415,383)
Compensated absences	(96,957)
Premium/Discount on bonds	(562,904)
Net pension liability	(597,309)
	(17,907,874)
Revenues earned but not available within sixty days of the year end are not	513,444
Accrued interest payable are not due in the current period and therefore are not reported in the funds	(85,695)
Deferred outflows of resources in governmental activities are not financial resources and, therefore, are not reported in the funds:	
Differences between expected and actual economic experience	(167,798)
Changes in actuarial assumptions	16,504
Difference between projected and actual investment earnings	169,969
Contributions subsequent to the measurement date	136,138
	154,813
Net position of governmental activities	$ 7,002,842

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

2) Reconciliation of Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Net change in fund balances - total governmental funds		$457,159
Amounts reported for governmental activities in the statement of net position are different Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation ($635,868) was less than the increase in capital assets ($2,427,050) in the current period.		1,791,182
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report, as expenditures, the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These represent the net changes in long-term debt:		
Capital leases	134,669	
Bond payable	(2,006,630)	
Compensated absences	(14,076)	
Bond premium	(132,806)	
		(2,018,843)
Pension related expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Changes in net pension liability	154,009	
Changes in deferred outflows of resources related to pension	(165,192)	
		(11,183)
Certain revenues and expenditures in the government-wide statement of activities that do not use or provide current financial resources are not reported as revenues and expenditures in the governmental funds:		
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements	48,712	
Interest expense accrued	(50,250)	
		(1,538)
		$216,777

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 of city government. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues* in the statement of activities.

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

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.

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

The government–wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. The City has no fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major funds:

> **General Fund -** The general fund is the city's primary operating fund. It accounts for all financial resources of the general government, except for those required to be accounted for in another fund.
>
> **Debt Service Fund -** The debt service fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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

Capital Projects Fund - The capital projects fund is used to account for the use of debt proceeds to acquire or construct capital assets.

Water Fund - The Water fund is used to account for the water utility services provided by the City.

Sewer Fund - The Sewer fund is used to account for the wastewater utility services provided by the City.

Executive Airport Fund - The Executive Airport fund is used to account for the activities of the airport owned by the City.

Rachael Arms Apartments Fund - The Rachael Arms Apartments fund is used to account for the activities of the Rachael Arms Apartments owned by the City.

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

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

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. The principal operating revenues of the proprietary funds are charges to customers for water sales, wastewater services, sanitation services, airport fees, and rents for apartments. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets and Liabilities

1) Pooled Cash, Investments and Temporary Deposits

The City's cash and cash equivalents for purposes of reporting cash flows of proprietary funds consist of cash on hand, demand deposits and deposits in the City's internal cash and investment pool with a maturity of three months or less. State statutes authorize the City to invest in U.S. Treasury and agency securities, commercial paper, money market mutual funds, repurchase agreements, and government investment pools. Investments for the City, as well as for its component units, are reported at fair value, The City invests in local government investment pools (LGIPs) that were created to function as money market mutual funds within the meaning of Rule 2a-7 of the Investment Company Act of 1940. Each of these LGIPs seeks to maintain a constant $1.00 net asset value per share.

2) Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible accounts.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 1. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

3) Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, and similar items), and water rights are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value.

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

D. Assets and Liabilities (continued)

Property, plant and equipment are depreciated using the straight-line method. The useful lives of all depreciable assets are as follows:

Buildings and building improvements	20-50 years
Land Improvements	20-50 years
Infrastructure	20-40 years
Machinery and Equipment	3-10 years

4) Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

5) Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, as well as issuance costs, are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond premium. Bond issuance costs are reported as expenses in the period incurred.

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

E. Nature and Purpose of Designations of Fund Equity

In 2011, the City has implemented the following GASB 54, *Funds Balance in Financial Reporting in Governmental Fund Type Definitions.* Under GASB 54, the City classifies its equity into five categories.

1. Non-spendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.

E. Nature and Purpose of Designations of Fund Equity (continued)

2. Restricted Fund Balance – Includes amounts that can be spent only for the specific purposes as imposed by law, or imposed by creditors, grantors, contributors, or other governments' laws and regulations. Examples include federal and state grant programs, retirement of long-term debt, and construction.

3. Committed Fund Balance – Includes amounts that can be used only for the specific purposes as determined by the governing body by formal action recorded in the minutes of the governing body. Commitments may be changed or lifted only by the governing body taking the same formal action that imposed the constraint originally. The City Council must take action to commit funds for a specific purpose prior to the end of the fiscal year, but the amount of the commitment may be determined after the end of the fiscal year.

4. Assigned Fund Balance – Includes amounts intended to be used by the City for specific purposes. Pursuant to GASB 54, this intent can be expressed by an official or body to which the governing body delegates that authority. Examples take on the similar appearance as those enumerated for committed fund balance, including the appropriation of existing fund balance to eliminate a deficit in next year's budget.

5. Unassigned Fund Balance – Includes the residual classification of the general fund and includes all amounts not contained in other classifications. By accounting for amounts in other funds, the City has implicitly assigned the funds for the purposes of those particular funds.

The City's highest level of decision-making authority is governed by the City Council. Passage of a resolution would be required to establish, modify, or rescind a fund balance commitment. The city Council has the authority to assign amounts to specific purposes. The City considers restricted amounts spent when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. Expenditures incurred for purposes for which amounts to any of the unrestricted fund balance classifications could be used are classified using the highest level of spending constraint available at the time of the expenditures. The City staff recommends a fund balance of no less than 90 days with a preferred balance of 120 days.

F. Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position are 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. In circumstances where an expense is to be made for a purpose for which amounts are available in multiple net position classifications, restricted net position will be fully utilized first followed by unrestricted as necessary.

G. Risk Management

The City purchases commercial insurance with Texas Municipal League to reduce exposure to risks of loss related to natural disasters, injuries to employees, errors and omissions, and damage or theft of assets. The City accounts for risk management issues in accordance with GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.

H. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72 provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The investments in government pools are measured at net asset value or amortized cost and are exempt from reporting in the fair value hierarchy, as further described in Note 3.

2. Stewardship, Compliance, and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual, appropriated budgets are adopted for the general fund, debt service funds, and proprietary funds. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds.

Prior to August 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance.

2. Stewardship, Compliance, and Accountability (continued)

Expenditures may not legally exceed appropriations at the fund level for each legally adopted annual budget. The City Council made supplemental budgetary appropriation changes during the fiscal year. In addition, transfer of appropriations between funds requires the approval of the City Council. The reported budgetary data has been revised for these amendments legally authorized during the year.

3. Detailed Notes on All funds

A. Assets

1) Deposits

At September 30, 2017, the carrying amount of the City's deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was $10,163,752 and the combined bank account balances amounted to $10,615,290. The difference of $451,538 is due to a combination of deposits in transit and outstanding checks. The City's cash deposits at September 30, 2017 and during the fiscal year ended September 30, 2017, were entirely covered by FDIC insurance or by collateral pledged by the City's bank and held by the City's agent bank in the City's name.

2) Investments

State statutes authorize the City to invest in U.S. Treasury Obligations, agencies and instrumentalities, in obligations of the State of Texas and other political subdivisions of any state rated "A" or above by Standard and Poor's Corporation or Moody's, and repurchase agreements. The City did not engage in repurchase nor reverse repurchase agreement transactions during the year.

The State Comptroller of Public Accounts exercises oversight responsibility over the external investment pools. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. The government pool uses amortized cost rather than the market value to report net assets to compute share price.

At September 30, 2017 the book value of the City's deposits in TexPool local government investment pool was $208,819, and the combined account balances at TexPool amounted to $208,819. The average monthly rate of the pool was 1.0151% the weighted average maturity of the pool was 34 days and the fair value per share was 1.0003.

At September 30, 2017 the book value of the City's deposits in TexSTAR local government investment pool was $1,684,625, and the combined account balances at TexSTAR amounted to $1,684,625. The average monthly rate of the pool was 1.0384% the weighted average maturity of the pool was 28 days and the fair value per share was 1.00002.

At September 30, 2016 the book value of the City's deposits in the Local Government Investment

A. Assets (continued)

Cooperatve (LOGIC) was $5,157,179, and the combined account balances at LOGIC amounted to $5,157,179. The average monthly rate of LOGIC was 1.2827% the weighted average maturity of LOGIC was 42 days and the fair value per share was 1.00021.

TexPool, TexSTAR, and LOGIC have been 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. These two acts provide for the creation of public funds investments pools and authorize eligible governmental entities to invest their public funds through the investment pools.

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. 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	Amount	Minimum Legal Rating	Rating as of Sept. 30, 2017
TexPool	$ 208,819	N/A	AAAm
TexSTAR	$ 1,684,625	N/A	AAAm
Logic	$ 5,157,179	N/A	AAAm

The City's Investment Policy is to minimize credit risk by:

1. Limiting investments to suitable and authorized investments including obligations of the United States, its agencies or instrumentalities, bank certificates of deposits, fully collateralized direct repurchase agreements, money market mutual funds and local government investment pools meeting requirements under the Public Funds Investment Act, rated no lower than AAA and are authorized by City Council action.

2. Pre-qualifying the financial institutions and broker/dealers with which the City will do business.

3. Investment portfolio diversification so that losses on individual securities are minimized.

b. Custodial Credit Risk

A. Assets (continued)

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. This is controlled through the City's investment policies on diversification:

1. Investments are limited to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. treasury securities).

2. Limiting investment in securities that have higher credit risks.

3. Investing in securities with varying maturities.

4. Continuously investing in a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The
City's investment policies regarding interest rate risk are:

1. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

2. Investing operating funds primarily in shorter-term securities, money market funds or similar investment pools.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

A. Assets (continued)

3) Receivables

Receivables as of the year ended September 30, 2017 for the City's individual major funds including the allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Water Fund	Sewer Fund	Airport Fund	Total
Receivables:						
Property tax	$ 75,594	$ 33,963	$ -	$ -	$ -	$ 109,557
Sales tax	151,276	-	-	-	-	151,276
Franchise fees	9,305	-	-	-	-	9,305
Municipal Court fines	1,804,085	-	-	-	-	1,804,085
Customer accounts	9,792	8,264	497,287	265,485	4,875	785,703
Gross Receivables	2,050,052	42,227	497,287	265,485	4,875	2,859,926
Less: Allowance for uncollectibles	(1,254,995)	(5,094)	(175,118)	(71,086)	-	(1,506,293)
Net total receivables	$ 795,057	$ 37,133	$ 322,169	$ 194,399	$ 4,875	$ 1,353,633

4) Capital Assets

Capital assets, additions, disposals, and depreciation for governmental activities and business-type activities for the year ended September 30, 2017 were as follows:

Governmental Activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 3,491,011	$ -	$ -	$ 3,491,011
Construction in progress	200,063	1,956,300	-	2,156,363
Totals, capital assets not being depreciated	3,691,074	1,956,300	-	5,647,374
Capital assets, being depreciated:				
Buildings and Improvements	8,630,309	248,767		8,879,076
Machinery and Equipment	3,069,880	187,738		3,257,618
Intangible Assets	470,532	-		470,532
Infrastructure	4,919,998	34,245		4,954,243
Totals, capital assets being depreciated	17,090,719	470,750	-	17,561,469
Less: accumulated depreciation for				
Buildings and Improvements	(3,374,799)	(184,626)		(3,559,425)
Machinery and Equipment	(1,309,554)	(328,249)		(1,637,803)
Intangible Assets	(394,429)	(12,864)		(407,293)
Infrastructure	(3,456,146)	(110,129)		(3,566,275)
Total accumulated depreciation	(8,534,928)	(635,868)	-	(9,170,796)
Total capital assets being depreciated, net	8,555,791	(165,118)	-	8,390,673
City capital assets, net	$ 12,246,865	$1,791,182	$ -	$ 14,038,047

A. Assets (continued)

Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 795,302	$ -	$ (1,737)	$ 793,565
Construction in progress	411,980	850,319		1,262,299
Totals, capital assets not being depreciated	1,207,282	850,319	(1,737)	2,055,864
Capital assets, being depreciated:				
Buildings and Improvements	1,339,198	117,694	(131,357)	1,325,535
Machinery and Equipment	835,417	93,482	(42,830)	886,069
Intangible Assets	123,267	-	-	123,267
Infrastructure	19,080,835	964,843	(39,217)	20,006,461
Totals, capital assets being depreciated	21,378,717	1,176,019	(213,404)	22,341,332
Less: accumulated depreciation for:				
Buildings and Improvements	(734,637)	(28,745)	109,027	(654,355)
Machinery and Equipment	(364,251)	(87,400)	28,164	(423,487)
Intangible Assets	(96,351)	(2,243)	-	(98,594)
Infrastructure	(6,213,610)	(468,229)	1,569	(6,680,270)
Total accumulated depreciation	(7,408,849)	(586,617)	138,760	(7,856,706)
Total capital assets being depreciated, net	13,969,868	589,402	(74,644)	14,484,626
City capital assets, net	$ 15,177,150	$ 1,439,721	$ (76,381)	$ 16,540,490

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

Government activities:	
Administrative	$ 237,787
Community Services	27,348
Emergency Services	121,549
Transportation	249,184
	$ 635,868
Business-type activities:	
Water	$ 239,249
Sewer	180,142
Airport	167,226
	$ 586,617

B. Liabilities

1) Changes in general long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	$ 550,052	$ -	$ (134,669)	$ 415,383	$ 137,164
Certificates of Obligation and Bonds	14,228,691	2,635,000	(628,370)	16,235,321	807,618
Compensated absences	82,881	80,484	(66,408)	96,957	46,413
Unamortized bond premium	430,098	162,433	(26,627)	565,904	-
Totals	$ 14,861,624	$ 2,877,917	$ (856,074)	$ 17,313,565	$ 991,195

B. Liabilities (continued)

The capital lease will be paid by the general fund. The CO's and bonds will be paid by the debt service fund. For the governmental activities, compensated absences are generally liquidated by the general fund.

In February 2017, The City issued City of McGregor, Texas Combination Tax and Revenue Certificates of Obligation, Series 2017 in the amount of $2,635,000. The bond proceeds will be used for the purpose of paying contractual obligations to construct city-wide street improvements, park improvements, water and sewer system improvements, and city hall renovations, and pay related professional services. As part of the bond issuance, the City recorded bond premium of approximately $162,000, which will be deferred and amortized over the life of the bond.

Bonds payable at September 30, 2017 are comprised of the following issues for the debt service fund:

Combination Tax and Revenue Certificates of Obligation, Series 1995, due in annual installments through January 15, 2035 at 5.25% interest.	$ 236,638
Combination Tax and Revenue Certificates of Obligation, Series 2003, due in annual installments through August 15, 2023 at 7% interest.	585,000
Combination Tax and Revenue Refunding Bonds, Series 2004, due in annual installments through August 15, 2019 at 4.7% interest.	193,683
Combination Tax and Revenue Certificates of Obligation, Series 2010, due in annual installments through August 15, 2030 at 4.25% interest.	2,630,000
Combination Tax and Revenue Certificates of Obligation, Series 2013, due in annual installments through August 15, 2026 at 2.77% interest.	695,000
Combination Tax and Revenue Certificates of Obligation, Series 2014, due in annual installments through August 15, 2029 at 2.41% interest.	2,455,000
Combination Tax and Revenue Certificates of Obligation, Series 2016, due in annual installments through August 15, 2036 at 2.86% interest.	6,865,000
Combination Tax and Revenue Certificates of Obligation, Series 2017, due in annual installments through August 15, 2036 at 3.04% interest.	2,575,000
Capital Leases	415,383
Compensated Absences	565,904
Combined Debt	$ 17,216,608

B. Liabilities (continued)

The note payable at September 30, 2017 is comprised of the following issue for the Airport Fund:

Note payable to First National Bank of McGregor, payable in quarterly payments of $8,500 including interest at 6.6%, renewed annually, used for airport improvements.	$ 158,639
Capital Leases	34,210
Compensated Absences	33,364
Combined Debt	$ 226,212

Annual debt service requirements are as follows:

Governmental Activities:

The annual requirements to amortize the bonded debt outstanding for the debt service fund as of September 30, 2017 are as follows:

Year	Principal	Interest	Total
2018	$ 807,618	$ 597,079	$ 1,404,697
2019	888,065	538,364	1,426,429
2020	839,000	507,931	1,346,931
2021	859,000	478,373	1,337,373
2022	900,000	446,216	1,346,216
2023-2027	4,993,000	1,686,175	6,679,175
2028-2032	4,246,000	819,016	5,065,016
2033-2037	2,702,638	219,609	2,922,247
Total	$ 16,235,321	$ 5,292,763	$ 21,528,084

The annual requirements to amortize the note payable for the Airport Fund as of September 30, 2017 including interest payments of $34,019 are as follows:

Year	Principal	Interest	Total
2018	30,022	3,997	34,019
2019	30,907	3,112	34,019
2020	31,791	2,228	34,019
2021	32,676	1,343	34,019
2022	33,243	776	34,019
Total	$ 158,639	$ 11,456	$ 170,095

B. Liabilities (continued)

2) Capital leases:

The Public Property Finance Act gives the City authority to enter into capital leases for the acquisition of personal property. Principal repayments due after September 30, 2016 are accounted for in the Statement of net position. The assets acquired through capital leases are as follows:

Asset:	Governmental Activities	Proprietary Activities
Machinery and equipment	$ 3,257,618	$ 886,069
Less: Accumulated depreciation	(1,637,803)	(423,487)
Total	$ 1,619,815	$ 462,582

The minimum future lease payments are as follows:

Year	Governmental Activities	Proprietary Activities	Total
2018	$ 151,580	$ 17,340	$ 168,920
2019	88,785	17,340	106,125
2020	61,851	-	61,851
2021	50,760	-	50,760
2022	50,760	-	50,760
2023-2027	101,520	-	101,520
Total	$ 505,256	$ 34,680	$ 539,936

B. Liabilities (continued)

4) Retirement Plan:

Plan Description

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

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.
At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to but not yet receiving benefits	53
Active employees	50
	133

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.

B. Liabilities (continued)

Employees for the City of McGregor were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of McGregor were 10.55% and 10.83% in calendar years 2016 and 2017, respectively. The city's contributions to TMRS for the year ended September 30, 2017, were $262,793, 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.

1. Actuarial assumptions

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

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

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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality 16 rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

B. Liabilities (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100%	

2. <u>Discount Rate</u>

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.

B. Liabilities (continued)

Changes in the Net Pension Liability	Increase (Decrease) Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	$ 6,525,595	$ 5,467,236	$ 1,058,359
Changes for the year:			
Service cost	336,061	-	336,061
Interest	443,892	-	443,892
Change of benefit terms	-	-	-
Difference between expected and actual experience	(267,540)	-	(267,540)
Changes of assumptions	-	-	-
Contributions - employer	-	243,674	(243,674)
Contributions - employee	-	138,582	(138,582)
Net investment income	-	369,298	(369,298)
Benefit payments, including refunds of employee contributions	(234,882)	(234,882)	-
Administrative expense	-	(4,173)	4,173
Other changes	-	(225)	225
Net changes	277,531	512,275	(234,744)
Balance at 12/31/2016	$ 6,803,126	$ 5,979,511	$ 823,615

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

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 1,849,893	$ 823,615	$ (8,789)

3. Pension Plan Fiduciary Net Position

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

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

B. Liabilities (continued)

For the fiscal year ended September 30, 2017, the City recognized pension expense of $251,153 and the calculation of the expense is summarized in the following table:

Schedule of Pension Expense

Total service cost	$	336,061
Interest on the total pension liability		443,892
Current period benefit changes		-
Employee contributions (reduction of expense)		(138,582)
Projected earnings on plan investments (reduction of expense)		(369,038)
Administrative expense		4,173
Other changes in fiduciary net position		225
Recognition of current year outflow (inflow) of resources - liabilities		(82,830)
Recognition of current year outflow (inflow) of resources - assets		(52)
Amortization of prior year outflows (inflows) of resources - liabilites		(28,454)
Amortization of prior year outflows (inflows) of resources - assets		85,758
Total pension expense	$	251,153

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 (Inflows) of Resources	
Differences between expected and actual economic experience	$	(241,283)
Changes in actuarial assumptions		23,732
Difference between projected and actual investment earnings		244,405
Contributions subsequent to the measurement date		195,757
Total	$	222,611

$195,757 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,	Net deferred outflows (inflows) of resources	
2017	$	(28,703)
2018		1,615
2019		53,994
2020		(52)
2021		-
Thereafter		-
	$	26,854

C. Interfund receivables, payables, and transfers

The purpose of the receivable in the General Fund due from the Water and Sewer Fund is to properly account for a cash deficit in the Water and Sewer Fund.

Interfund balances at September 30, 2017 are as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Water Fund	$ 696,515
General Fund	Sewer Fund	697,700
Total		$ 1,394,215

The purpose of the transfers from the Water and Sewer Funds to the General Fund was to pay for administrative services provided on behalf of these funds by the General Fund, and the purpose of the transfers from the Water and Sewer funds to the debt service fund was to support the payment of debt used to acquire and construct infrastructure. The purpose of the transfers from the Capital Projects Fund to the Water and Sewer funds was for the acquisition and construction of water and waterworks infrastructure.

Interfund transfer activity for the year ended September 30, 2017 was as follows:

Transfer Out	Transfer In	Amount
Water Fund	General Fund	80,000
Sewer Fund	General Fund	44,000
General Fund	Industrial Park Fund	173,540
Capital Projects Fund	Water Fund	734,171
Capital Projects Fund	Sewer Fund	1,034,310
Water Fund	Debt Service Fund	195,074
Sewer Fund	Debt Service Fund	511,727
Rachael Arms Apartment Fund	General Fund	1,444,574
Total		$ 4,217,396

D. McGregor Economic Development Corporation

McGregor Economic Development Corporation (EDC) was established under the provisions of Section 4B of the Development Corporation Act of 1979 as a Texas Municipal Corporation. EDC was organized specifically for the public purposes to study and fund permissible projects prescribed in the Development Corporation Act.

Discrete methodology was used to present the EDC in the financial statements of the City of McGregor. This methodology was selected after evaluation of all the circumstances and available standards. The EDC is supported principally through the collection of a one-half percent sales tax on goods and services sold within the City of McGregor, Texas. These taxes are collected by the State of Texas, remitted to the City of McGregor, and then distributed to the EDC by the City offices.

E. Contingencies

The City is involved in lawsuits with other parties from time to time. While the ultimate result of these matters cannot be predicted with certainty, the City does not expect them to have a materially adverse effect on its Basic Financial Statements.

F. Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through March 29, 2018, the date the financial statements were available to be issued.

APPENDIX C

FORM OF BOND COUNSEL’S OPINION

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Bickerstaff
Heath Delgado Acosta LLP

$2,090,000
CITY OF MCGREGOR, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION,
SERIES 2018A

WE HAVE ACTED AS BOND COUNSEL in connection with the issuance by the City of McGregor, Texas (the “City”) of $2,090,000 aggregate original principal amount of its Combination Tax and Revenue Certificates of Obligation, Series 2018A, dated August 1, 2018 (the "Certificates").

IN OUR CAPACITY AS BOND COUNSEL, we have examined the Certificates for the sole purpose of rendering an opinion with respect to the legality and validity of the Ordinance (as defined below) and the Certificates under the Constitution and laws of the State of Texas, and with respect to the excludability of the interest on the Certificates from gross income for federal income tax purposes. We have not been requested to investigate or verify, and have not investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and the Home Rule Charter of the City. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant, a transcript of certified proceedings of the City and other pertinent instruments authorizing and relating to the issuance of the Certificates, including (1) the ordinance (the “Ordinance”) authorizing the issuance of the Certificates, (2) the registered Initial Certificate numbered T-1, and (3) the Federal Tax Certificate of the City.

BASED ON OUR EXAMINATION, we are of the opinion that:

1. The Certificates are valid and legally binding obligations of the City enforceable in accordance with their terms, except as their enforceability may be limited by bankruptcy, insolvency, or other laws affecting creditors' rights generally and as may be affected by matters involving the exercise of equitable or judicial discretion.

2. The Certificates are secured by and payable from the levy of a direct and continuing annual ad valorem tax upon all taxable property within the City, within the limits prescribed by law, sufficient for said purposes, and a limited pledge, not to exceed $1,000, of the Surplus Revenues of the City's Waterworks and Sewer System, as provided in the Ordinance.

3. Interest on the Certificates is excludable for federal income tax purposes from the gross income of the owners thereof pursuant to Section 103 of the Code and will not constitute a specific item of tax preference under Section 57 of the Code for purposes of calculating the alternative minimum tax on individuals or, except as noted below for tax years beginning before January 1, 2018, corporations.

For tax years beginning before January 1, 2018, the adjustment for "adjusted current earnings" set forth in Section 56(g) of the Code is required in determining a corporation's alternative minimum taxable income. Alternative minimum taxable income is increased by seventy-five percent (75%) of the excess, if any, of the "adjusted current earnings" of a corporation over the alternative minimum taxable income (determined without regard to this adjustment or the alternative tax net operating loss deduction). Interest on tax-exempt obligations, including the Certificates, would generally be included in computing a corporation's "adjusted current earnings." Accordingly, a portion of any interest on the Certificates received or accrued by a corporation that owns the Certificates will be included in computing such corporation's alternative minimum taxable income for such year. For tax years beginning after December 31, 2017, Public Law 115-97 repealed the corporate alternative minimum tax.

In addition, the City has designated the Certificates as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code dealing with financial institutions and has represented that the total amount of tax-exempt obligations (including the Certificates) issued by it is not reasonably anticipated to exceed $10,000,000 in "qualified tax-exempt obligations" during calendar year 2018.

In rendering this opinion, we have assumed continuing compliance by the City with the covenants contained in the Ordinance and the Federal Tax Certificate, that it will comply with the applicable requirements of the Code, including requirements relating to, *inter alia*, the use and investment of proceeds of the Certificates and rebate to the United States Treasury of specified arbitrage earnings, if any, under Section 148(f) of the Code. Failure of the City to comply with such covenants could result in the interest on the Certificates being subject to federal income tax from the date of issue. We have not undertaken to monitor compliance with such covenants or to advise any party as to changes in the law after the date hereof that may affect the tax-exempt status of the interest on the Certificates.

The opinions set forth above are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. We observe that the City has covenanted in the Ordinance not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

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