

Dated September 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 will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters".

**THE CERTIFICATES HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS"
FOR FINANCIAL INSTITUTIONS**

\$11,395,000

**TOWN OF NORTHLAKE, TEXAS
(Denton County)**

COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: Date of Delivery

Due: August 15, as shown on page 2

Interest to Accrue From Date of Delivery

PAYMENT TERMS . . . Interest on the \$11,395,000 Town of Northlake, Texas Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the "Certificates"), will accrue from their date of delivery and will be payable February 15, 2019, and on each August 15 and February 15 thereafter until maturity or prior redemption. Interest on the Certificates 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, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in principal denominations of \$5,000 or integral multiples thereof within a stated 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 ZB, National Association, dba Amegy Bank, Houston, 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"), particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and constitute direct obligations of the Town of Northlake, Texas (the "Town"), payable from the levy and collection of a direct and continuing annual ad valorem tax levied on all taxable property within the Town, within the limits prescribed by law, and from a limited pledge of \$1,000 of the surplus net revenues of the Town's Waterworks and Sewer System (the "System"), as provided in the ordinance authorizing the Certificates (see "The Certificates - Authority for Issuance of the Certificates" and "The Certificates – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) acquiring, constructing, installing and equipping additions, improvements, extensions and equipment for the System; and (ii) payment of fiscal, engineering and legal fees incurred in connection with the issuance of the Certificates.

CUSIP PREFIX: 666495

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 of the Certificates (see "Other Information – Initial Purchaser" herein) and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see "Appendix C - Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about October 9, 2018.

MATURITY SCHEDULE

15-Aug Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
2019	\$ 400,000	5.000%	1.900%	DG8
***	***	***	***	***
2022	35,000	3.000%	2.100%	DH6
2023	130,000	3.000%	2.200%	DJ2
2024	195,000	3.000%	2.350%	DK9
2025	265,000	3.000%	2.450%	DL7
2026	470,000	3.000%	2.550%	DM5
2027	525,000	5.000%	2.650%	DN3
2028	590,000	5.000%	2.700%	DP8
2029	665,000	5.000%	2.780% ⁽²⁾	DQ6
2030	735,000	5.000%	2.850% ⁽²⁾	DR4
2031	795,000	5.000%	2.900% ⁽²⁾	DS2
2032	830,000	5.000%	2.970% ⁽²⁾	DT0
2033	875,000	4.000%	3.300% ⁽²⁾	DU7
2034	910,000	4.000%	3.350% ⁽²⁾	DV5
2035	945,000	3.375%	3.550%	DW3
2036	975,000	3.500%	3.600%	DX1
2037	1,010,000	3.500%	3.650%	DY9
2038	1,045,000	3.500%	3.700%	DZ6

(Interest to accrue from Date of Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the services provide by CGS. None of the Town, the Financial Advisor or the Initial Purchaser of the Certificates shall be responsible for the selection or correctness of CUSIP numbers set forth herein.
- (2) Yield shown is yield to first call date, August 15, 2028.

REDEMPTION OPTION . . . The Town 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”).

No dealer, broker, salesman or other person has been authorized by the Town 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 Town. 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 Town 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 Town or other matters described herein since the date hereof. See "Continuing Disclosure of Information" for a description of the Town's undertaking to provide certain information on a continuing basis.

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".

This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Initial Purchaser of the Certificates 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.

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE CERTIFICATES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE COVER PAGES CONTAIN CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND ARE NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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.

NONE OF THE TOWN, ITS FINANCIAL ADVISOR, NOR THE INITIAL PURCHASER OF THE CERTIFICATES MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC.

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY	4	CONTINUING DISCLOSURE OF INFORMATION	34
TOWN OFFICIALS, STAFF AND CONSULTANTS	6	OTHER INFORMATION	36
ELECTED OFFICIALS	6	RATINGS	36
SELECTED ADMINISTRATIVE STAFF	6	LITIGATION	36
CONSULTANTS AND ADVISORS	6	REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE	36
INTRODUCTION.....	7	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS	36
THE CERTIFICATES	7	LEGAL MATTERS	36
TAX INFORMATION.....	13	AUTHENTICTOWN OF FINANCIAL DATA AND OTHER INFORMATION	37
TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT.....	17	FINANCIAL ADVISOR	37
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY	18	INITIAL PURCHASER	37
TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY	19	CERTIFICATION AS TO OFFICIAL STATEMENT.....	37
TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY ..	19	FORWARD-LOOKING STATEMENTS DISCLAIMER.....	37
TABLE 5 - TEN LARGEST TAXPAYERS	19	MISCELLANEOUS	38
TABLE 6 - TAX ADEQUACY	20	APPENDICES	
TABLE 7 - ESTIMATED OVERLAPPING DEBT.....	20	GENERAL INFORMATION REGARDING THE TOWN.....	A
DEBT INFORMATION	21	EXCERPTS FROM THE ANNUAL FINANCIAL REPORT	B
TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS	21	FORM OF BOND COUNSEL'S OPINION	C
TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION	22		
TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS	22		
TABLE 11 - OTHER OBLIGATIONS.....	22		
FINANCIAL INFORMATION	26		
TABLE 12 - CHANGES IN NET ASSETS	26		
TABLE 12 -A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY	27		
TABLE 13 - MUNICIPAL SALES TAX HISTORY	28		
TABLE 14 - CURRENT INVESTMENTS.....	31		
TABLE 15 - WATER AND SEWER RATES	31		
TABLE 16 - WATER AND SEWER OPERATING REVENUES ...	32		
TAX MATTERS.....	31		

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 TOWN**..... The Town of Northlake, Texas (the “Town”) is a political subdivision and type A municipal corporation of the State of Texas (the “State”), located in Denton County, Texas. The Town covers approximately 17 square miles (see "Introduction - Description of the Town").
- THE CERTIFICATES** The Certificates are issued as \$11,395,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (the “Certificates”). The Certificates are issued as serial Certificates maturing on August 15 of each year in the years 2019 and 2022 through 2038 (see “The Certificates – Description of the Certificates”).
- PAYMENT OF INTEREST** Interest on the Certificates accrues from their date of delivery and is payable February 15, 2019, and on 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 issued pursuant to the Constitution and general laws of the State, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and the ordinance authorizing the issuance of the Certificates adopted by the Town Council of the Town (see “The Certificates - Authority for Issuance of the Certificates”).
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the Town payable from the levy and collection of a direct and continuing annual ad valorem tax levied on all taxable property within the Town, within the limits prescribed by law, and from a limited pledge of \$1,000 of the surplus net revenues of the Town’s Waterworks and Sewer System (the “System”) (see “The Certificates – Security and Source of Payment” and “The Certificates – Tax Rate Limitation”).
- NOT QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The Town **has not** designated the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.
- OPTIONAL REDEMPTION** The Town reserves the right, at its option, to redeem Certificates of 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”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "Tax Matters".
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used for (i) acquiring, constructing, installing and equipping additions, improvements, extensions and equipment for the System; and (ii) payment of fiscal, engineering and legal fees incurred in connection with the issuance of the Certificates.
- RATINGS** The Certificates and the presently outstanding tax-supported debt of the Town are rated “AA-” by S&P Global Ratings, a Standard & Poor’s Financial Service LLC business (“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 principal denominations of \$5,000 or integral multiples thereof within a stated 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").
- PAYMENT RECORD** The Town has never defaulted in payment of its general obligation tax debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Town Population ⁽¹⁾	Assessed Valuation ⁽²⁾	Per Capita Assessed Valuation	Net General Obligation (G.O.) Tax Debt ⁽³⁾	Per Capita Net G. O. Tax Debt	Ratio of Net Tax Debt to Assessed Valuation	% Total Levy Collections
2014	2,215	\$ 231,630,373	\$104,556	\$ 1,665,000	\$ 752	0.72%	96.73%
2015	2,160	241,142,050	111,640	5,970,000	2,764	2.48%	106.33%
2016	2,660	278,963,233	104,873	12,685,000	4,769	4.55%	98.94%
2017	3,010	382,188,447	126,973	12,015,000	3,992	3.14%	100.46%
2018	3,610	500,185,509	138,556	22,865,000 ⁽⁴⁾	6,334 ⁽⁴⁾	4.57% ⁽⁴⁾	98.28% ⁽⁵⁾

- (1) Source: Town Officials
- (2) As reported by the Denton Central Appraisal District on the Town’s annual State property tax reports; subject to change during the ensuing year.
- (3) Includes self-supporting debt.
- (4) Includes the Certificates.
- (5) Collections as of June 30, 2018.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Beginning Balance	\$ 1,575,023	\$ 4,681,337	\$ 4,108,709	\$ 486,184	\$ 267,927
Total Revenue	3,739,221	3,410,789	3,394,076	2,481,311	1,962,917
Total Expenditures	3,055,439	2,913,421	2,821,448	2,313,066	1,919,660
Total Other Financing Sources	(333,352)	(500,677)	-	3,454,280	175,000
Net Funds Available	683,782	497,368	572,628	3,622,525	218,257
Prior Period Adjustment	-	(3,103,005)	-	-	-
Ending Balance	<u>\$ 1,925,453</u>	<u>\$ 1,575,023</u>	<u>\$ 4,681,337</u>	<u>\$ 4,108,709</u>	<u>\$ 486,184</u>

For additional information regarding the Town, please contact:

Drew Corn
Town Administrator
Town of Northlake
1400 FM 407
Northlake, Texas 76247
(940) 648-3290

or

W. Boyd London, Jr.
Marti Shew
Hilltop Securities Inc.
1201 Elm Street, Suite 3500
Dallas, Texas 75270
(214) 953-4000

TOWN OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Town Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Peter Dewing Mayor	10 Years	May, 2019	Retired
Brian Montini Mayor Pro Tem	Newly Elected	May, 2020	Business Development Manager, Legrand AV
Rena Hardeman Councilmember	Newly Elected	May, 2020	Registered Interior Designer
Jimmy Lambert Councilmember	Newly Elected	May, 2020	Jimmy John's Franchise Owner
Roger Sessions Councilmember	8 Years	May, 2019	Owner, Ferris Manufacturing
Danny Simpson Councilmember	11 Years	May, 2019	Owner, Texop

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service to the Town</u>	<u>Total Governmental Service</u>
Drew Corn	Town Administrator	10 Years	24 Years
Shirley Rogers	Town Secretary	21 Years	21 Years
Karen Bolyard	Finance Director	4 Years	11 Years

CONSULTANTS AND ADVISORS

Auditors M. Vail & Associates, P.C.
Richardson, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

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

OFFICIAL STATEMENT

RELATING TO

\$11,395,000

TOWN OF NORTHLAKE, TEXAS

COMBINATION TAX AND LIMITED SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$11,395,000 Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2018 (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 (the "Ordinance") which authorized the issuance of the Certificates.

There follows in this Official Statement descriptions of the Certificates and certain information regarding the Town of Northlake, Texas (the "Town") 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 Town's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

References to website addresses presented in this Official Statement are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless otherwise specified in this Official Statement, references to websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

DESCRIPTION OF THE TOWN . . . The Town is a political subdivision and type A general law municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State. The Town was incorporated in 1960. The Town Council is comprised of the Mayor and five Councilmembers. The term of office is two years and the terms of the Mayor and two of the Councilmembers' terms expiring in odd-numbered years and the terms of the other three councilmembers expiring in even-numbered years. Some of the services that the Town provides are: public safety (police and fire protection), ambulance, streets, water and sewer services and general administrative services. The 2010 Census population for the Town was 1,724, while the estimated 2018 population is 3,500. The Town covers approximately 17 square miles.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated as of the date of initial delivery (the "Date of Delivery"), expected to be on or about October 9, 2018,, and mature on August 15 in each of the years and in the amounts shown on page 2 of this Official Statement. Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Certificates will accrue from the Date of Delivery and is payable February 15, 2019, and on each August 15 and February 15 thereafter until maturity or redemption prior to maturity. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("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.

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 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 their stated maturity or upon earlier redemption upon presentation to 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 any payment on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the Town 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.

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the Town payable from a direct and continuing annual ad valorem tax levied against all taxable property within the Town, within the limits prescribed by law (see "The Certificates - Tax Rate Limitation" below). The Certificates are additionally secured by a lien on and a limited pledge of \$1,000 of the revenues of the Town's combined Waterworks and Sewer System (the "System") remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Town's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, as provided in the Ordinance.

TAX RATE LIMITATION . . . All taxable property within the Town is subject to the assessment, levy and collection by the Town 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 4, of the Texas Constitution is applicable to the Town, and limits its maximum ad valorem tax rate to \$1.50 per \$100 Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance and based on a 90% collection rate. Also, see "Tax Information – Effective Tax Rate and Rollback Tax Rate" and "Tax Information – General Obligation Debt Limitation."

OPTIONAL REDEMPTION . . . The Town 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 of the Certificates are to be redeemed, the Town may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity 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.

NOTICE OF REDEMPTION AND OTHER NOTICES . . . Not less than 30 days prior to a redemption date for the Certificates, the Town will cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Certificate 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 of redemption so mailed will be conclusively presumed to have been duly given irrespective of whether received by the owner of the Certificate. If such notice of redemption is given and if due provision for such payment is made and all other conditions to redemption are satisfied, all as provided above and as further described in the following paragraph, the Certificates or portions thereof which are to be so redeemed thereby automatically will be treated as redeemed prior to their scheduled maturities, and they will not bear interest after the date fixed for redemption, and they will not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

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

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

AMENDMENTS . . . In the Ordinance, the Town has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (v) make such other provisions in regard to matters or questions arising under the Ordinance

that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the Town, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the holders of the Certificates aggregating a majority in principal amount of the outstanding Certificates shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the Town; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Certificates so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Certificates; (ii) reducing the rate of interest borne by any of the outstanding Certificates; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Certificates; (iv) modifying the terms of payment of principal of, interest on or redemption premium on outstanding Certificates, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

DEFEASANCE. . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal on the Certificates, plus interest on the Certificates to the due date thereof is provided by irrevocably depositing with the Paying Agent/Registrar, or other financial institution permitted by applicable law, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates, and thereafter the Town will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Certificates, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinance provides that the term "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the Town approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the Town approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The Town has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the Town moneys in excess of the amount required for such defeasance. Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities, or for any other Defeasance Security, will be maintained at any particular rating category.

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

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

The Town 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 Certificates registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of 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"). Direct Participants and Indirect Participants are referred to herein as "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 Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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 Town or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates 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, the Paying Agent/Registrar, or the Town, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town does not take any 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 the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Town, the Initial Purchase of the Certificates or the Financial Advisor.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC with respect to the Certificates, or the use of the Book-Entry-Only System with respect to the Certificates is discontinued by the Town, printed Certificates will be issued to the DTC Participants or the Beneficial Owner, as the case may be, and such 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 is ZB, National Association, dba Amegy Bank, Houston, Texas. In the Ordinance, the Town retains the right to replace the Paying Agent/Registrar with respect to the Certificates. The Town 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 Town agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates 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, the 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 respective 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 of principal amount 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.

LIMITATION ON TRANSFER OF CERTIFICATES . . . The Town and the Paying Agent/Registrar shall not be required to make any transfer or exchange of any Certificates during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate called for redemption in part.

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 preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Town. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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.

REMEDIES . . . The Ordinance provides that if the Town defaults in the payment of the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance and the continuation thereof for a period of 60 days after notice of such default is given by any registered owner to the Town, the registered owners may seek a writ of mandamus to compel Town officials to carry out their legally imposed duties with respect to the Certificates. The issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the Town to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the Town’s sovereign immunity from a suit for money damages, holders may not be able to bring such a suit against the Town for breach of the Certificates or Ordinance covenants. Even if a judgment against the Town could be obtained, it could not be enforced by direct levy and execution against the Town’s property. Further, the registered owners cannot themselves foreclose on property within the Town or sell property within the Town to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of Sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. V. City of Jacksonville*, 489 S.W.3d 427 (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 restrict the waiver of immunity when a city performs a proprietary function. The Town is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

As noted above, the Ordinance provides that holders of Certificates may exercise the remedy of mandamus to enforce the obligations of the Town under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in either *Tooke* or *Wasson Interests*, and it is unclear whether *Tooke* or *Wasson Interests* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the Town is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the Town avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

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

Principal Amount	\$ 11,395,000.00
Net Reoffering Premium	823,908.10
TOTAL SOURCES	<u><u>\$ 12,218,908.10</u></u>
Deposit to Project Construction Fund	\$ 12,000,000.00
Underwriter's Discount	118,621.95
Costs of Issuance	100,286.15
TOTAL USES	<u><u>\$ 12,218,908.10</u></u>

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the Town is the responsibility of the Denton Central 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 (the "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 that would not exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the Appraisal District or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within Appraisal District is subject to review by an Appraisal Review Board within each respective Appraisal District, consisting of members appointed by the Board of Directors of each respective Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The Town may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the Town by petition filed with the appropriate 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 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. Senate Joint Resolution 1 ("Senate Joint Resolution 1"), passed during the 84th Texas Legislature, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$15,000 to \$25,000 and requiring that the tax limitation for taxpayers who are age 65 and older or disabled be reduced to reflect the additional exemption. While Senate Joint Resolution 1 is not directly applicable to municipalities and counties, Senate Bill 1, which was also passed by the 84th Legislature, provides that if Senate Joint Resolution 1 was approved by the voters on November 3, 2015, then the governing body of a school district, municipality, or county is prohibited from reducing the amount of or repealing an optional homestead exemption that was in place for the 2014 tax year (fiscal year 2015) for a period running through December 31, 2019. Senate Joint Resolution 1 was approved by voters on November 3, 2015, and, therefore, such prohibition is in effect.

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 (for so long as the spouse remains unmarried) or children (under 18 years of age) 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 a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, effective January 1, 2012, and subject to certain conditions, surviving spouses 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.

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes 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.

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. 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.

A city may utilize tax increment financing ("TIF"), pursuant to the Tax Increment Financing Act, Texas Tax Code, Chapter 311, as amended, 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 Town 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 Town 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.

Cities are 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 Town. In accordance with a program established pursuant to Chapter 380, the Town may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the Town.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE. . . . By each September 1 or as soon thereafter as practicable, the Town Council adopts a tax rate per \$100 taxable value for the current year. The Town Council is required to adopt the annual tax rate for the Town before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the Town. If the Town 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 Town 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 Town must annually calculate and publicize its "effective tax rate" and "rollback tax rate". Under current law, a tax rate cannot be adopted by the Town Council that exceeds the lower of the rollback tax rate or of 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 Town's website if the Town owns, operates or controls an internet website and public notice be given by television if the Town has free access to a television channel) and the Town 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 Town 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 Town is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on 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:

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

After July, the penalty remains at 12%, and interest 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 of 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 Town'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.

TOWN APPLICATION OF TAX CODE . . . The Town grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$15,000.

The Town grants an additional 5% exemption of the market value or a minimum of \$5,000 of residence homesteads.

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

The Town does not tax nonbusiness personal property.

The Town does not tax freeport property.

The Town does not tax goods-in-transit.

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

The Town has not established an ad valorem tax freeze on the residence homestead of persons 65 years of age or older and the disabled.

The Town has a Water Control and Improvement District and a Municipal Management District within its corporate limits and a Fresh Water Supply District within its Extraterritorial Jurisdiction.

PUBLIC IMPROVEMENT DISTRICTS . . . Pursuant to resolutions adopted on April 24, 2014, and after published notice and a public hearing, the Town created a public improvement district pursuant to Chapter 372, Texas Local Government Code, as amended (the "PID Act") within the Town. The Highlands Public Improvement District (the "Highlands PID") contains approximately 363.905 acres of land generally located on the south side of FM 407 approximately two miles west of Interstate I-35W, as more particularly described by a metes and bounds description available at Northlake Town Hall and available for public inspection.

TAX INCREMENT REINVESTMENT ZONE . . . On December 10, 2015, the Town created Tax Increment Reinvestment Zone Number One, Town of Northlake, Texas ("TIRZ 1"). The purpose of TIRZ 1 is to design, plan, construct, acquire and install trail systems, streets and road improvements, cover annual administrative cost, operation, repair and maintenance of the trail system. The Town's tax participation amount is \$0.0909 per \$100 valuation and the developer reimbursement amount is \$5,381,425

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/2018 Market Valuation Established by Denton Central Appraisal District (excluding totally exempt property)		\$ 648,375,937
Less Exemptions/Reductions at 100% Market Value:		
Loss to 10% Home Cap	\$ 2,838,509	
Productivity Loss	91,170,342	
Disabled Veterans	1,048,291	
Over 65	683,300	
Abatements	25,741,699	
Freeport Property	<u>26,708,287</u>	<u>148,190,428</u>
2017/2018 Taxable Assessed Valuation		\$ 500,185,509
Outstanding General Obligation Debt as of 7/1/2018	\$ 12,015,000	
The Certificates	<u>11,395,000</u>	
Total General Obligation Debt		\$ 23,410,000
Less: Self-Supporting Debt ⁽¹⁾		
The Highlands Public Improvement District (Assessments)	\$ 3,710,000	
Waterworks and Sewer System Net Revenue	<u>375,000</u>	
Total Self-Supporting Debt		\$ 4,085,000
Net General Obligation Debt Payable from Ad Valorem Taxes		\$ 19,325,000
Ratio Net General Obligation Tax Debt to Taxable Assessed Valuation		3.86%

2018 Estimated Population - 3,610
 Per Capita Taxable Assessed Valuation - \$138,556
 Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$6,485
 Per Capita Net General Obligation Debt Payable from Ad Valorem Taxes - \$5,353

(1) It is the Town's current policy to provide these payments from the various revenue sources; this policy is subject to change in the future. In the event the Town changes its policy, or such revenues are not sufficient to pay debt service on such obligations the Town will be required to levy an ad valorem tax to pay such debt service. See "Table 10 – Computation of Self-Supporting Debt" herein.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 134,567,313	20.75%	\$ 76,813,052	15.96%	\$ 54,588,667	14.56%
Real, Residential, Multi-Family	76,977,063	11.87%	89,979,887	18.69%	77,640,715	20.71%
Real, Vacant Lots/Tracts	16,579,124	2.56%	21,564,745	4.48%	8,312,871	2.22%
Real, Acreage (Land Only)	93,716,619	14.45%	83,873,874	17.43%	78,392,196	20.92%
Real, Farm and Ranch Improvements	31,578,552	4.87%	28,851,364	5.99%	21,394,836	5.71%
Real, Commercial	153,086,880	23.61%	99,838,812	20.74%	55,912,611	14.92%
Real, Industrial	4,631,342	0.71%	4,591,052	0.95%	4,556,104	1.22%
Gas and Oil	28,641,543	4.42%	21,130,254	4.39%	22,976,063	6.13%
Real and Tangible Personal, Utilities	4,050,261	0.62%	3,298,281	0.69%	2,855,336	0.76%
Tangible Personal, Commercial	6,450,804	0.99%	3,251,952	0.68%	2,662,599	0.71%
Tangible Personal, Industrial	74,436,941	11.48%	30,856,394	6.41%	39,275,973	10.48%
Tangible Personal, Mobile Homes	44,232	0.01%	51,432	0.01%	122,077	0.03%
Real Property, Inventory	23,615,262	3.64%	17,221,474	3.58%	6,120,174	1.63%
Total Appraised Value Before Exemptions	\$ 648,375,937	100.00%	\$ 481,322,573	100.00%	\$ 374,810,222	100.00%
Less: Total Exemptions/Reductions	148,190,428		99,134,126		95,846,989	
Taxable Assessed Value	<u>\$ 500,185,509</u>		<u>\$ 382,188,447</u>		<u>\$ 278,963,233</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 51,634,770	15.28%	\$ 47,160,222	14.61%
Real, Residential, Multi-Family	60,643,436	17.95%	49,164,958	15.23%
Real, Vacant Lots/Tracts	4,888,101	1.45%	5,357,183	1.66%
Real, Acreage (Land Only)	81,497,525	24.12%	79,801,864	24.72%
Real, Farm and Ranch Improvements	18,268,704	5.41%	17,174,952	5.32%
Real, Commercial	45,937,305	13.60%	40,662,083	12.59%
Real, Industrial	4,366,774	1.29%	4,309,856	1.33%
Gas and Oil	29,109,959	8.62%	35,025,278	10.85%
Real and Tangible Personal, Utilities	4,414,071	1.31%	5,839,441	1.81%
Tangible Personal, Commercial	2,792,093	0.83%	3,359,040	1.04%
Tangible Personal, Industrial	30,764,763	9.11%	30,926,609	9.58%
Tangible Personal, Mobile Homes	189,908	0.06%	277,797	0.09%
Real Property, Inventory	3,351,393	0.99%	3,811,763	1.18%
Total Appraised Value Before Exemptions	\$ 337,858,802	100.00%	\$ 322,871,046	100.00%
Less: Total Exemptions/Reductions	96,716,752		91,240,673	
Taxable Assessed Value	<u>\$ 241,142,050</u>		<u>\$ 231,630,373</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the 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.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Net General Obligation (G.O.) Tax Debt ⁽³⁾	Net G.O. Tax Debt Per Capita	Ratio of Net G.O. Tax Debt to Taxable Assessed Valuation
2014	2,215	231,630,373	104,556	1,665,000	752	0.72%
2015	2,160	241,142,050	111,640	5,970,000	2,764	2.48%
2016	2,660	278,963,233	104,873	12,685,000	4,769	4.55%
2017	3,010	382,188,447	126,973	12,015,000	3,992	3.14%
2018	3,610	500,185,509	138,556	22,865,000 ⁽⁴⁾	6,334 ⁽⁴⁾	3.14% ⁽⁴⁾

(1) Source: Town staff.

(2) As reported by the Appraisal District on the Town's annual State Property Tax Reports filed with the Comptroller of Public Accounts; subject to change during the ensuing year.

(3) Includes self-supporting debt.

(4) Includes the Certificates.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	General Fund	Interest and Sinking Fund	Total Tax Rate	Total Tax Levy	% Current Collections	% Total Collections
2014	\$ 0.2046	\$ 0.0904	\$ 0.2950	\$ 683,310	96.57%	96.73%
2015	0.2067	0.0883	0.2950	711,369	104.27%	106.33%
2016	0.2177	0.0773	0.2950	822,942	99.47%	98.94%
2017	0.1903	0.1047	0.2950	1,143,222	99.94%	100.46%
2018	0.1776	0.1174	0.2950	1,610,104	97.70% ⁽¹⁾	98.28% ⁽¹⁾

(1) Collections as of June 30, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Northport 35 Investors, LLC	Warehouse	\$ 40,072,501	8.01%
Chadwick Apartments Phase 1 LTD	Residential	32,723,700	6.54%
Dry Creek Apts, LTD	Residential	24,468,930	4.89%
DCT Northlake LP	Warehouse	21,753,169	4.35%
Intercapital Creekside Owner LLC	Residential	19,784,433	3.96%
Cabot IV TX1B01 B02 LLC	Warehouse	19,200,000	3.84%
Wesco Aircraft Hardware Corp	Aerospace Products	15,948,767	3.19%
Farmers Bros Co	Coffee Manufacturing	13,014,435	2.60%
The Clorox Sales Company	Warehouse	10,437,633	2.09%
Quiktrip Corp	Retail	9,394,233	1.88%
		<u>\$ 206,797,801</u>	<u>41.34%</u>

GENERAL OBLIGATION DEBT LIMITATION . . . No general obligation debt limitation is imposed on the Town under current State law (see "The Certificates - Tax Rate Limitation").

TABLE 6 – TAX ADEQUACY ⁽¹⁾

Net General Obligation Debt Service Requirements, FY 2018	\$ 524,113
\$0.1070 I&S Tax Rate Required at 98% Collection Rate Produces	\$ 524,495
Average Net General Obligation Debt Service Requirements, FY 2018-2038	\$ 1,302,763
\$0.2658 I&S Tax Rate Required at 98% Collection Rate Produces	\$ 1,302,903
Maximum Net General Obligation Debt Service Requirements, FY 2034	\$ 1,537,144
\$0.3136 I&S Tax Rate Required at 98% Collection Rate Produces	\$ 1,537,210

(1) Excludes self-supporting debt; includes the Certificates.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the Town are paid out of ad valorem taxes levied by such entities on properties within the Town. Such entities are independent of the Town and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("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 Town, the Town 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 Town.

Taxing Jurisdiction	2017/18 Taxable Assessed Valuation	2015/16 Tax Rate	Total GO Tax Debt 7/1/2018	Estimated % Applicable	Town's Overlapping GO Tax Debt 7/1/2018
Town of Northlake	\$ 500,185,509	\$ 0.17760	\$ 19,325,000 ⁽¹⁾	100.00%	\$ 19,325,000 ⁽¹⁾
Argyle ISD	1,616,457,767	1.48500	127,941,246	1.24%	1,586,471
Canyon Falls WC & ID #2	86,537,438	0.70500	10,730,000	90.56%	9,717,088
Denton County	88,330,714,230	0.23800	640,490,000	0.55%	3,522,695
Ponder ISD	596,168,593	1.46800	19,245,000	37.00%	7,120,650
Northwest ISD	14,469,938,566	1.49000	870,670,379	3.07%	26,729,581
					<u>\$ 68,001,485</u>
Ratio of Direct and Overlapping GO Debt to Taxable Assessed Valuation					13.60%
Per Capita Overlapping GO Debt					\$ 18,837

(1) Excludes self-supporting debt; includes the Certificates.

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DEBT INFORMATION

TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Year Ending	Outstanding Debt Service ⁽¹⁾			The Certificates ⁽²⁾			Less: PID Assess. Supported	Less: W&S System Supported	Net General Obligation	% of Principal
	Principal	Interest	Total	Principal	Interest	Total	Debt Service ⁽³⁾	Debt Service ⁽³⁾	Debt Service	Retired
2018	\$ 545,000	\$ 288,219	\$ 833,219	\$ -	\$ -	\$ -	\$ 278,525	\$ 30,581	\$ 524,113	
2019	560,000	277,319	837,319	400,000	398,815	798,815	280,125	30,181	1,325,827	
2020	620,000	266,119	886,119	-	449,194	449,194	281,625	29,781	1,023,907	
2021	680,000	253,719	933,719	-	449,194	449,194	283,025	29,381	1,070,507	
2022	710,000	240,119	950,119	35,000	449,194	484,194	279,325	28,981	1,126,007	15.16%
2023	725,000	225,406	950,406	130,000	448,144	578,144	285,163	28,531	1,214,856	
2024	700,000	210,369	910,369	195,000	444,244	639,244	285,775	28,081	1,235,757	
2025	715,000	195,269	910,269	265,000	438,394	703,394	285,775	27,581	1,300,307	
2026	585,000	178,719	763,719	470,000	430,444	900,444	284,625	26,981	1,352,557	
2027	600,000	164,719	764,719	525,000	416,344	941,344	288,325	26,381	1,391,357	36.14%
2028	620,000	149,219	769,219	590,000	390,094	980,094	285,625	30,781	1,432,907	
2029	635,000	133,194	768,194	665,000	360,594	1,025,594	287,750	30,031	1,476,007	
2030	650,000	117,306	767,306	735,000	327,344	1,062,344	290,113	29,281	1,510,256	
2031	670,000	100,931	770,931	795,000	290,594	1,085,594	292,150	28,469	1,535,906	
2032	690,000	82,706	772,706	830,000	250,844	1,080,844	293,544	27,625	1,532,381	65.53%
2033	710,000	63,919	773,919	875,000	209,344	1,084,344	294,600	26,781	1,536,882	
2034	730,000	43,681	773,681	910,000	174,344	1,084,344	294,975	25,906	1,537,144	
2035	430,000	22,300	452,300	945,000	137,944	1,082,944	-	-	1,535,244	
2036	440,000	11,550	451,550	975,000	106,050	1,081,050	-	-	1,532,600	
2037	-	-	-	1,010,000	71,925	1,081,925	-	-	1,081,925	95.54%
2038	-	-	-	1,045,000	36,575	1,081,575	-	-	1,081,575	100.00%
	<u>\$ 12,015,000</u>	<u>\$ 3,024,781</u>	<u>\$ 15,039,781</u>	<u>\$ 11,395,000</u>	<u>\$ 6,279,615</u>	<u>\$ 17,674,615</u>	<u>\$ 4,871,045</u>	<u>\$ 485,334</u>	<u>\$ 27,358,017</u>	

(1) "Outstanding Debt" does not include lease/purchase obligations.

(2) Average life of the Certificates – 13.723 years.

(3) It is the Town's current policy to provide these payments from the respective revenue sources (see "Table 10 - Computation of Self-Supporting Debt" herein); this policy is subject to change in the future. In the event the Town changes its policy, or such revenues are not sufficient to pay debt service on such obligations the Town will be required to levy an ad valorem tax to pay such debt service. The Town collects water and sewer impact fees. In some instances it may apply a portion of these fees to pay debt service.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Interest and Sinking Fund Balance, as of 9/30/2017	\$ 250,722
Budgeted Interest and Sinking Fund Tax Levy	556,937
Budgeted Delinquent Taxes, Penalties and Interest	50
Net Other Revenue and Paying Agent fees	<u>(2,241)</u>
Total Available	<u>\$ 805,468</u>
Less: Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/2018	\$ 524,113
Projected Interest and Sinking Fund Balance as of September 30, 2017	\$ 281,355

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The Town has no authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . After the issuance of the Certificates, the Town does not anticipate the issuance of additional general obligation debt in the next 12 months.

TABLE 11 – OTHER OBLIGATIONS

Notes payable as of September 30, 2017:

Fiscal Year Ending 30-Sep	Governmental Activities		
	Notes Payable		
	Principal	Interest	Total D/S
2018	\$ 294,553	\$ 10,453	\$ 305,006
	<u>\$ 294,553</u>	<u>\$ 10,453</u>	<u>\$ 305,006</u>

PENSION FUND

Plan Description – The Town 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 Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees. 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 Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.org.

All eligible employees of the Town 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 Town, 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 Town-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in over 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.

A summary of plan provisions for the Town are as follows:

	<u>Plan Year 2017</u>
Deposit Rate:	5%
Matching Ratio (Town to Employee):	2 to 1
Years required for vesting	5 years
Service retirement eligibility (expressed as age/years of service)	60/5, 0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	0% of CPI
Supplemental Death Benefit to active employees	Yes
Supplemental Death Benefit to retirees	Yes

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	4
Inactive employees entitled to but not yet receiving benefits	19
Active employees	<u>27</u>
Total	50

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Town matching percentages are with 100%, 150%, or 200%, both as adopted by the governing body of the Town. Under the state law governing TMRS, the contributions rate for each Town 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 Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 9.09% and 9.58% in calendar years 2016 and 2017, respectively. The Town's contributions to TMRS for the year ended September 30, 2017, were \$173,585, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality 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 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 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 the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation,

along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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 for TMRS.

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

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

Discount Rate

The discount rate used to measure the TPL 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 the 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 period of projected benefit payments to determine the TPL.

Changes in the Net Pension Liability

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12/31/15	\$ 1,964,940	\$ 1,626,539	\$ 338,401
Changes for the year:			
Service Cost	256,814	-	256,814
Interest	140,867	-	140,867
Difference between expected and actual experience	62,182	-	62,182
Contributions-employer	-	147,406	(147,406)
Contributions-employee	-	114,649	(114,649)
Net investment income	-	110,118	(110,118)
Benefit payments, including refunds of emp. Contributions	(12,871)	(12,871)	-
Administrative expense	-	(1,241)	1,241
Other changes	-	(67)	67
Net changes	446,992	357,994	88,998
Balance at 12/31/16	\$ 2,411,932	\$ 1,984,533	\$ 427,399

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

	1% Decrease in 5.75%	Current Single Rate Assumption 6.75%	1% Increase in 7.75%
Town's net pension liability	\$ 884,541	\$ 427,399	\$ 60,303

Pension Plan Fiduciary Net Position

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

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

For the year ended September 30, 2017, the Town recognized pension expense of \$231,157 and the calculation of the expense is summarized in the following table:

Schedule of Pension Expense	
Total service cost	\$ 256,814
Interest on the total pension liability	140,867
Current period benefit changes	-
Employee contributions (reduction of expense)	(114,649)
Projected earnings on plan investments (reduction of expense)	(109,791)
Administrative expense	1,241
Other change in fiduciary net position	67
Recognition of current year outflow (inflow) of resources-liabilities	11,064
Recognition of current year outflow (inflow) of resources-assets	(65)
Amortization of prior year outflows (inflows) of resources-liabilities	23,248
Amortization of prior year outflows (inflows) of resources-assets	22,361
	<u>\$ 231,157</u>

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

	Schedule of Deferred Outflows and Inflows of Resources			
	Deferred Outflows of Resources	Deferred Inflows of Resources	2016 Recognized in Current Pension Expense	Deferred (inflow/Outflow in future expense)
Differences between expected and actual economic experience	\$ 62,182	\$ -	\$ 11,064	\$ 51,118
Difference between projected and actual investment earnings	(327)	-	(65)	(262)
Contributions subsequent to the measurement date	-	-	-	-
Total	<u>\$ 61,855</u>	<u>\$ -</u>	<u>\$ 10,999</u>	<u>\$ 50,856</u>

\$50,856 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expenses as follows:

Year ended December 31:

2017	\$ 56,608
2018	56,607
2019	51,004
2020	14,867
2021	6,862
Thereafter	-
	<u>\$ 185,948</u>

OTHER POST-EMPLOYMENT BENEFITS

As of September 30, 2017, the Town does not offer any Other Post-Employment Benefits.

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<u>Revenues:</u>					
Program Revenues:					
Fees, Fines and Charges for Services	\$ 1,886,105	\$ 1,655,051	\$ 1,652,816	\$ 1,158,993	\$ 867,532
General Revenue:					
Property Tax	1,179,013	922,534	743,419	683,502	704,349
PID Assessment	610,503	1,359,296	882,995	27,886	-
Sales Tax	1,246,433	257,563	244,696	626,825	494,487
Franchise Tax	282,277	257,813	238,013	198,913	224,394
Hotel/Motel Taxes	267,965	40,944	30,730	143,548	101,053
Investment Earnings	113,463	436,420	366,158	5,377	4,012
Miscellaneous	1,542,348	204,122	176,376	355,425	390,206
Total Revenues	<u>\$ 7,128,107</u>	<u>\$ 5,133,743</u>	<u>\$ 4,335,203</u>	<u>\$ 3,200,469</u>	<u>\$ 2,786,033</u>
<u>Expenditures:</u>					
General Government	\$ 1,437,941	\$ 1,562,134	\$ 946,647	\$ 1,161,129	\$ 614,116
Municipal Court	279,833	238,250	268,501	274,826	289,882
Police	1,312,199	1,139,912	1,027,335	819,258	971,836
Public Works	1,016,548	658,352	525,722	386,805	416,806
Economic Development	932,591	636,186	101,694	94,047	106,448
Promotional	61,929	38,233	25,219	38,416	26,548
Interest on Long-Term Debt	432,877	226,945	285,614	132,088	48,643
Total Expenditures	<u>\$ 5,473,918</u>	<u>\$ 4,500,012</u>	<u>\$ 3,180,732</u>	<u>\$ 2,906,570</u>	<u>\$ 2,474,279</u>
Change in Net Position Before Transfers	\$ 1,654,189	\$ 633,731	\$ 1,154,471	\$ 293,899	\$ 311,754
Transfers	172,262	146,629	125,000	(765,000)	125,000
Change in Net Position	<u>\$ 1,826,451</u>	<u>\$ 780,360</u>	<u>\$ 1,279,471</u>	<u>\$ (471,101)</u>	<u>\$ 436,754</u>
Net Asset 9/30 Prior Year	\$ 6,774,190	\$ 5,920,802	\$ 4,839,135	\$ 5,310,236	\$ 4,873,482
Prior Period Adjustment	-	73,028	(197,804)	-	-
Net Position - 9/30 Current Year	<u>\$ 8,600,641</u>	<u>\$ 6,774,190</u>	<u>\$ 5,920,802</u>	<u>\$ 4,839,135</u>	<u>\$ 5,310,236</u>

TABLE 12 -A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<u>Revenues</u>					
Taxes:					
Property	\$ 744,911	\$ 693,972	\$ 531,191	\$ 474,563	\$ 515,571
PID Assessment	-	-	366,158	27,886	-
Sales and Beverage	623,492	679,648	457,100	313,413	247,243
Franchise	282,277	257,563	244,696	-	224,394
Hotel/Motel Tax	-	-	-	198,913	-
Building Permits, Plant and Other Fines	1,341,544	1,061,699	980,848	467,657	201,999
Municipal Court	592,248	601,110	671,968	691,517	623,358
Interest Income	4,487	3,233	5,791	2,669	1,384
Miscellaneous	150,262	113,564	136,324	304,693	148,968
Total Revenues	<u>3,739,221</u>	<u>3,410,789</u>	<u>3,394,076</u>	<u>2,481,311</u>	<u>1,962,917</u>
<u>Expenditures</u>					
Current:					
General Government	1,126,020	1,259,940	916,529	992,606	583,324
Municipal Court	235,974	189,765	238,845	224,754	230,727
Police	1,227,348	1,036,188	945,708	851,133	835,600
Public Works	466,097	425,044	324,131	240,582	233,932
Capital Outlay	-	2,484	111,609	-	12,126
Debt Service					
Principal	-	-	148,275	3,864	24,350
Interest and Fiscal Charges	-	-	136,351	127	(399)
Total Expenditures	<u>3,055,439</u>	<u>2,913,421</u>	<u>2,821,448</u>	<u>2,313,066</u>	<u>1,919,660</u>
Excess of Revenues Over (Under) Expenditures	683,782	497,368	572,628	168,245	43,257
Other Financing Sources (Uses)					
Bond Proceeds	-	-	-	4,169,280	-
Transfers In	200,000	175,000	175,000	175,000	175,000
Transfers (Out)	(533,352)	(675,677)	(175,000)	(890,000)	-
Total Other Financing Sources (Uses)	<u>(333,352)</u>	<u>(500,677)</u>	<u>-</u>	<u>3,454,280</u>	<u>175,000</u>
Net Change in Fund Balances	350,430	(3,309)	572,628	3,622,525	218,257
Fund Balances - Beginning	1,575,023	4,681,337	4,108,709	486,184	267,927
Prior Period Adjustment	-	(3,103,005) ⁽¹⁾	-	-	-
Fund Balances - Ending	<u>\$ 1,925,453</u>	<u>\$ 1,575,023</u>	<u>\$ 4,681,337</u>	<u>\$ 4,108,709</u>	<u>\$ 486,184</u>

(1) This adjustment was made to separate the Town's two Public Improvement Districts from General Fund activity.

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The Town has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the Town the power to impose and levy a 1% Local Sales and Use Tax within the Town; 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 Town monthly. In addition to the collections below, the voters of the Town approved the imposition of an additional sales and use tax of one-half of one percent (1/2% of 1%) solely for the promotion and development of new expanded business enterprises, and such tax may be pledged to secure payment of sales tax revenue bond issued by the Northlake Economic Development Corporation. The voters of the Town also approved a sales and use tax of one-half of one percent (1/2% of 1%) solely for the promotion and development of new and expanded business enterprises and such tax may be pledged to the payment of obligations that may be issued by the Northlake Community Development Corporation.

In October 1998 Congress passed the Internet Tax Freedom Act. This Act placed a three-year moratorium on the levy of taxes on internet commerce. In 2004, Congress extended the moratorium until November 1, 2007. On November 1, 2007 the President signed into law a continuation of the moratorium passed by Congress that extends the moratorium until November 1, 2014. The impact of this moratorium on future municipal sales tax is not determinable.

Fiscal Year Ended 9/30	Total Sales Tax Collected ⁽¹⁾	1% Sales Tax Collected ⁽²⁾	% of Ad Valorem Tax Levy ⁽³⁾	Equivalent of Ad Valorem Tax Rate ⁽³⁾	Per Capita ⁽³⁾
2014	\$ 600,408	\$ 300,204	43.93%	\$ 0.1296	\$ 135.51
2015	778,790	389,395	54.74%	0.1615	180.28
2016	1,377,358	688,679	83.69%	0.2469	258.90
2017	1,294,996	647,498	56.64%	0.1694	215.12
2018	1,006,999 ⁽⁴⁾	503,500	31.27%	0.1007	143.86

- (1) As reported by the Texas Comptroller of Public Accounts.
- (2) Represents the Town's sales and use taxes; excludes 4A and 4B Corporations' collections.
- (3) Percentage of 1% Sales Tax Collected
- (4) Collections through July 2018.

FINANCIAL POLICIES

Government-wide and Fund Financial Statements. . . The governmental-wide financial statement (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the *primary government* is financially accountable.

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

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

Measurement Focus, Basis of Accounting and Basis of 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 and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the 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 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 50 days of the

end of the current fiscal period, with the exception of intergovernmental revenues, which have a one-year period of availability. 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, claims and judgments, landfill closure/post closure costs, are recorded only when the liability has matured.

Property taxes, sales taxes, hotel/motel taxes, franchise fees and licenses, intergovernmental revenues, certain charges for services, 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. All other revenue items are considered to be measurable and available only when the Town receives the cash as the resulting receivables are deemed immaterial.

INVESTMENTS

The Town invests its investable funds in investments authorized by Texas law, including particularly Texas Government Code, Chapter 2256 (the "PFIA"), in accordance with investment policies approved by the Town Council. Both state law and the Town's investment policies are subject to change.

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE TOWN . . . Under State law, the Town is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is 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, or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for Town deposits; or (ii) where (a) the funds are invested by the Town through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Town as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the Town; (b) the broker or the depository institution selected by the Town arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Town; (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 Town appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Town with respect to the certificates of deposit; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the Town, held in the Town's name, and deposited at the time the investment is made with the Town or with a third party selected and approved by the Town and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Town, held in the Town's name and deposited at the time the investment is made with the Town or a third party designated by the Town; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, either (i) has a duration of one year or more and is invested exclusively in obligations described in this paragraph or (ii) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities, and invest exclusively in obligations described in this paragraph. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

The Town may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The Town 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 Town retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Town must do so by order, ordinance, or resolution.

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

Under State law, the Town 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 Town 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 Public Funds Investment Act. All Town 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 State law, Town 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 Town shall submit an investment report detailing: (1) the investment position of the Town, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and fully accrued interest during 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 Town funds without express written authority from the Town Council.

ADDITIONAL PROVISIONS . . . Under the PFIA, the Town 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 Town; (4) require the qualified representative of firms offering to engage in an investment transaction with the Town to: (a) receive and review the Town's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Town and the business organization that are not authorized by the Board's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Town's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Town and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Town'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 Town'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 Town.

No funds of the Town are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index, or commodity.

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TABLE 14 - CURRENT INVESTMENTS

As of June 30, 2018, the Town's investable funds were invested in the following categories:

Type of Investment	Fair Value
LOGIC	\$ 10,611,433
Wells Fargo Investment Account	2,137,045
Total	<u>\$ 12,748,478</u>

(1) Local Government Investment Cooperative (“LOGIC”) is a local government investment pool for whom Hilltop Securities Inc., is a co-administrator for the pool. LOGIC currently maintains a “AAAm” rating from Standard & Poor's and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants. LOGIC operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940, to the extent such rule is applicable to its operations. Accordingly, LOGIC uses the amortized cost method permitted by SEC Rule 2a-7 to report net assets and share prices since that amount approximates fair value. The investment activities of LOGIC are administered by third party advisors. There is no regulatory oversight by the State of Texas over LOGIC.

TABLE 15 – WATER AND SEWER RATES

Water

Residential		Commercial	
Meter Size	Effective 1/1/2013	Meter Size	Effective 1/1/2013
3/4"	\$19.50	3/4"	\$19.50
1"	30.00	1"	30.00
1.5"	40.00	1.5"	40.00
2"	60.00	2"	60.00
3"	85.00	3"	85.00
4"	125.00	4"	125.00
6"	250.00	6"	250.00
*Volume Charge (per gallons)		*Volume Charge (per gallons)	
3,001 - 15,000	\$2.75	0 - 15,000	\$4.25
15,001 - 30,000	3.60	15,001 - 30,000	5.15
Over 30,001	4.95	Over 30,001	6.25

Sewer

Residential		Commercial	
Meter Size	Effective 1/1/2013	Meter Size	Effective 1/1/2013
3/4"	\$19.50	3/4"	\$19.50
1"	30.00	1"	30.00
1.5"	40.00	1.5"	40.00
2"	60.00	2"	60.00
3"	85.00	3"	85.00
4"	125.00	4"	125.00
6"	250.00	6"	250.00
*Volume Charge (per gallons)		*Volume Charge (per gallons)	
Over 3,001	\$5.25	Over 3,001	\$6.75

TABLE 16 – WATER AND SEWER OPERATING REVENUES

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
<i>Operating Revenues:</i>					
Water and Sewer Service	\$ 3,296,635	\$ 2,584,170	\$ 2,016,122	\$ 1,053,338	\$ 837,075
Total Revenues	<u>\$ 3,296,635</u>	<u>\$ 2,584,170</u>	<u>\$ 2,016,122</u>	<u>\$ 1,053,338</u>	<u>\$ 837,075</u>
Expenditures:					
<i>Operating Expenditures:</i>					
Operating Expenses	\$ 2,444,601	\$ 1,511,773	\$ 1,260,979	\$ 1,030,717	\$ 734,470
Total Expenditures	<u>\$ 2,444,601</u>	<u>\$ 1,511,773</u>	<u>\$ 1,260,979</u>	<u>\$ 1,030,717</u>	<u>\$ 734,470</u>
Non-operating Revenues (Expenses):					
Miscellaneous Revenue	\$ 20,324	\$ 60,734	\$ 29,718	\$ -	\$ -
Interest Income	(7,339)	(28,061)	-	674	403
Total Revenues	<u>\$ 12,985</u>	<u>\$ 32,673</u>	<u>\$ 29,718</u>	<u>\$ 674</u>	<u>\$ 403</u>
Net Revenue Available for Debt Service	<u>\$ 865,019</u>	<u>\$ 1,105,070</u>	<u>\$ 784,861</u>	<u>\$ 23,295</u>	<u>\$ 103,008</u>
Debt Service Requirements	\$ -	\$ -	\$ -	\$ -	\$ -
Coverage Ratio	n/a	n/a	n/a	n/a	n/a

TAX MATTERS

OPINION . . . On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the Town, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Certificates will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the Town will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See Appendix C – Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel to the Town will rely upon (a) the Town's federal tax certificate, and (b) covenants of the Town with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the Town to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of issuance of the Certificates. The opinion of Bond Counsel to the Town is conditioned on compliance by the Town with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the Town has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the Town with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the Town that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Town as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT. . . The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE CERTIFICATES.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Certificates, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Certificates" to the extent such gain does not exceed the accrued market discount of such Certificates; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a Certificate issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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.

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

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under Federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the Town has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The Town is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the Town will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be publicly available on the MSRB's Electronic Municipal Market Access System ("EMMA") at <http://emma.msrb.org/>.

ANNUAL REPORTS . . . The Town will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Town of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 16 and in Appendix B, which is the Town's annual audited financial report. The Town will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2018 and, if not submitted as part of such annual financial information, the Town will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the Town 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 Town may be required to employ from time to time pursuant to State law or regulation.

The Town's current fiscal year end is September 30. Accordingly, the Town must provide updated information included in the above-referenced tables by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the Town changes its fiscal year. If the Town changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the Town otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

EVENT NOTICES . . . The Town will also provide timely notices of certain specified events to the MSRB via EMMA. The Town will provide notice of any of the following events with respect to the Certificates within ten Business Days after the occurrence of such 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 determination 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, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the Town; (13) the consummation of a merger,

consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. (Neither the Certificates nor the Ordinance make any provision for debt service reserves or credit or liquidity enhancement.)

As used above, the term “Business Day” means a day other than a Saturday, a Sunday, a legal holiday, or a day on which banking institutions in the city where the Designated Trust Office of the Paying Agent/Registrar is located are authorized by law or executive order to close, and the phrase “bankruptcy, insolvency, receivership or similar event” means the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. 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 Town, or if jurisdiction has been assumed by leaving the Town Council and officials or officers of the Town in possession but subject to 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 Town. In addition, the Town will provide timely notice of any failure by the Town to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The Town 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 via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

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

The Town 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 Town, 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 Town (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 Town may also amend or repeal the provisions of its 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 Town 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 Town became obligated to file annual reports with the nationally recognized municipal securities information repository (“NRMSIR”) in an offering that took place in 2014. Due to an administrative oversight, certain financial information and audited financial statements were not timely filed with the NRMSIR for fiscal year ending September 30, 2014. The audit for fiscal year ending September 30, 2014 was accepted by the Town’s council on March 12, 2015, and filed with its other obligated information on June 10, 2015, including a notice of late filing. The audit for fiscal year ending September 30, 2015 was accepted by the Town’s council on February 11, 2016, and filed with its other obligated information on March 29, 2016

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OTHER INFORMATION

RATINGS

The Certificates and the presently outstanding tax-supported debt of the Town are rated “AA-” by S&P, without regard to credit enhancement. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the Town 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 such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

Due to uncertainty surrounding efforts to address the deficits and debt burden of the United States of America, obligations issued by state and local governments in the United States, such as the Certificates, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the market for and ratings, liquidity, and market value of outstanding debt obligations, including the Certificates. Any such downward revision or withdrawal of such ratings, may have an adverse effect on the market prices of the Certificates.

LITIGATION

It is the opinion of the Town Attorney and Town Staff that there is no pending litigation against the Town that would have a material adverse financial impact upon the Town 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 Town 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) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the 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 Town has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

LEGAL MATTERS

The Town will furnish to the Initial Purchaser (see “Other Information – Initial Purchaser”, below) a complete transcript of proceedings had incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Certificates and to the effect that the Certificates are valid and legally binding obligations of the Town, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect, and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “Tax Matters” herein. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. Though it may represent the Financial Advisor and purchasers of bonds, such as the Initial Purchaser from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel has been engaged by and only represents the Town in the issuance of the Certificates. 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. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates.

The 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 that 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 Town 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 ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the Town 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. The Financial Advisor has agreed, in its financial advisory contract, not to 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 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 Town 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 Town 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 Town accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on page 2 of this Official Statement at a price of \$12,100,286.15. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the Town to the Initial Purchaser. The initial yields shown on page 2 of this Official Statement were established by and are the sole responsibility of the Initial Purchaser and may subsequently be changed at the sole discretion of the Initial Purchaser. The Town has no control over the determination of the initial yields and has no control over the prices at which the Certificates are sold in the secondary market.

CERTIFICATION AS TO OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the Town will furnish the Initial Purchaser a certificate, executed by an authorized representative of the Town, acting in such person's representative capacity, to the effect that to the best of such person's knowledge and belief: (a) the descriptions and statements of or pertaining to the Town 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 Town 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 in any material respect; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the Town, and their activities contained in the Official Statement are concerned, such statements and data have been obtained from sources which the Town believes to be reliable and the Town 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 Town since the date of the last audited financial statements of the Town.

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the Town, that are not purely historical, are forward-looking statements, including statements regarding the Town'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 Town on the date hereof, and the Town assumes no obligation to update any such forward-looking statements. The Town'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 Town. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

MISCELLANEOUS

The financial data and other information contained herein have been obtained from the Town's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Ordinance authorizing the issuance of the Certificates also 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 Initial Purchaser.

PETER DEWING
Mayor
Town of Northlake, Texas

ATTEST:

SHIRLEY ROGERS
Town Secretary

APPENDIX A

GENERAL INFORMATION REGARDING THE TOWN

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THE TOWN

LOCATION . . . The Town of Northlake is located in Denton County. Some of the services that the Town provides are: public safety (police and fire protection), ambulance, streets, water and sewer services and general administrative services. The 2010 Census population for the Town was 1,724, while the estimated 2016 population is 3,500. The Town covers approximately 17 square miles.

EDUCATION . . . The Town is served by the Northwest ISD and the Argyle ISD. The Northwest ISD encompasses 232 square miles and is situated northwest of the Dallas-Fort Worth Metroplex in the counties of Denton, Tarrant, and Wise. Argyle ISD is on U.S. Highway 377 six miles southwest of Denton in Southwestern Denton County.

EMPLOYMENT RATES

	Average Annual				
	2018 ⁽¹⁾	2017	2016	2015	2014
Civilian Labor Force	475,625	464,581	451,157	428,166	414,162
Total Employed	460,340	449,263	435,696	412,960	395,799
Total Unemployed	15,285	15,318	15,461	15,206	18,363
Unemployment Rate	3.2%	3.3%	3.4%	3.6%	4.4%

(1) Through May 2018.

Source: Texas Workforce Commission

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APPENDIX B

EXCERPTS FROM THE
TOWN OF NORTHLAKE, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the Town of Northlake, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the Town'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

Report of Independent Auditors

To the Honorable Mayor and Town Council
Town of Northlake, Texas
1400 FM 407
Northlake, TX 76247

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining fund information of the Town of Northlake, Texas (“The Town”) as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the Town’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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor judgment, including the assessment of the risks of the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town as of September 30, 2017, and the respective changes in financial

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www.vailcpas.com

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 required supplementary information on pages 09–21 and 56–65 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 Town's basic financial statements. The combining schedules on pages 68-69 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining schedules are the responsibility of management and were derived from and relates 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 schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2018 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

M. C. Aul & Associates, P.C.

Richardson, Texas
February 5, 2018

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Our discussion and analysis of Town of Northlake's financial performance provides an overview of the Town's financial activities for the fiscal year ended September 30, 2017. Please read it in conjunction with the Town's financial statements, which begin on page 24.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$14,009,808 (net position). Of this amount, \$3,724,220 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net position increased by \$2,394,839. Governmental activities increased their net position by 27% or \$1,826,451 and business type activities increased their net position by 11.7% or \$568,388.
- As of the close of the 2017 fiscal year, the Town's governmental funds reported a combined ending fund balance of \$11,112,352 (page 26), which is an increase of 88.7% or \$5,224,021 when compared with the prior year. The increase is mainly attributable to two events; first, the receipt of bond proceeds of \$6,990,000 and secondly, a reimbursement of \$1,170,000 from Denton County for the Dale Earnhardt Way road project.
- At the end of the fiscal year, unassigned fund balance for the general fund was a surplus of \$1,925,453 and is 63.0% of total general fund expenditures.
- During the fiscal year the Town issued debt in the amount of \$8,380,000 for roadway projects, heavy equipment and in refunding bonds for the series 2005 certificates of obligation. The Town reduced their debt by \$2,164,871 during the fiscal year through the course of regularly expected payments and by paying off the 2005 Certificates of Obligation.

Overview of the Financial Statements

The discussion and analysis are intended to serve as an introduction to the Town of Northlake's basic financial statements. The Town's basic financial statements are comprised of three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

The basic financial statements present two different views of the Town through the use of government-wide statements, (pages 24 and 25), and fund financial statements, (pages 26 through 29). The Government-wide financial statements provide both short and long-term information about the Town while the fund financial statements focus on the activities of the individual components.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Government-wide Financial Statements

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

The Statement of Net Position presents information on all of the Town of Northlake's assets and liabilities, with the difference between the two reported as net position. The Town's total net position is segmented for both restricted and unrestricted uses. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town of Northlake is improving or deteriorating.

The Statement of Activities presents information showing how the Town's net position changed during the 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).

Both of the government-wide financial statements distinguish functions of the Town of Northlake that are principally supported by taxes and inter-governmental revenues (government 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 Town include general government, municipal court, police, public works, economic development and promotional. The business-type activities of the Town include water and sewer activities.

The government-wide financial statements can be found on pages 24 through 25 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Northlake, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. All of the funds of the Town 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. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader 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.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Fund Financial Statements (continued)

The Town maintains seven individual major governmental funds as well as other non-major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Public Improvement Districts, Economic Development, Community Development, Hotel/Motel Tax funds, Capital Projects and Debt Service.

The Town adopts an annual appropriated budget for all of its governmental funds, except for its capital projects fund and some non-major funds. A budgetary comparison statement has been provided for all budgeted governmental funds to demonstrate compliance with its budget. This comparison can be found on pages 58 through 64 in the Required Supplementary Information section of this report.

The basic governmental fund financial statements can be found on pages 26 through 29 of the report.

Proprietary Funds. The Town maintains two types of proprietary funds. An enterprise fund is used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activities. The Town uses three internal service funds; one to account for its equipment purchases and equipment maintenance; the second internal service fund is utilized for maintenance of Town facilities; and the third is for technology resources. Proprietary funds provide the same type of information as the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 30 through 32 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to basic financial statements can be found on pages 33 through 53 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison schedules for certain Governmental Funds. Required supplementary information can be found on pages 56 through 65 of this report.

Government-wide Financial Analysis

In order for the Town to provide services to its citizens, the Town operates both governmental and business -type activities. Governmental activities provide services for public works, police, municipal courts, developmental and promotional services, and general governmental activities. The Town provides water and sewer utilities to its residents and these activities are known as business-type activities.

As noted earlier, net position may serve over time as a useful indicator of the Town's financial position. As of September 30, 2017, the Town of Northlake's assets exceeded liabilities by \$14,009,808. The overall net position of the Town increased by \$2,394,839 during fiscal year with business-type and governmental activities incurring increases in their net positions. When compared to the prior year, governmental activities net position increased 26.6.0% or \$1,826,451 while business type activities increased their net position by 11.7% or \$568,388.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Government-wide Financial Analysis (continued)

A portion of the business-type net position, \$4,258,425 or 78.73% of total net position, reflects its investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system and infrastructure), less any debt used to acquire those assets that is still outstanding.

These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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 following chart compares the Town's current net position to the prior fiscal years nets position for both governmental and business-type activities:

<i>Town of Northlake's Net Position</i>						
	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Assets:						
Current and Other Assets	\$ 12,777,065	\$ 6,815,194	\$ 2,333,944	\$ 1,824,892	\$ 15,111,009	\$ 8,640,086
Capital Assets	8,794,695	5,990,580	4,258,425	4,173,160	13,053,120	10,163,740
Total Assets	21,571,760	12,805,774	6,592,369	5,998,052	28,164,129	18,803,826
Deferred outflows of resources	262,925	240,528	54,338	47,244	317,263	287,772
	262,925	240,528	54,338	47,244	317,263	287,772
Liabilities:						
Long-term Liabilities Outstanding	12,304,534	5,647,313	756,967	895,935	13,061,501	6,543,248
Other Liabilities	667,530	369,756	480,573	308,582	1,148,103	678,338
Total Liabilities	12,972,064	6,017,069	1,237,540	1,204,517	14,209,604	7,221,586
Deferred inflows of resources	261,980	255,043	-	-	261,980	255,043
Net Assets:						
Invested in Capital Assets, Net of Related Debt	(3,159,736)	622,501	4,258,425	3,343,561	1,098,689	3,966,062
<i>Restricted for:</i>	-	-	-	-	-	-
Debt Service	126,531	249,740	-	-	126,531	249,740
Capital Projects	5,996,260	11,071	-	-	5,996,260	11,071
Court Technology, Security & Child Safety	250,722	250,910	-	-	250,722	250,910
Economic Development	612,391	595,579	-	-	612,391	595,579
Community Development	592,138	575,332	-	-	592,138	575,332
Promotional Activities	1,484,307	1,258,552	-	-	1,484,307	1,258,552
Public improvement	119,353	1,373,509	-	-	119,353	1,373,509
Other purposes	5,197	(1,385)	-	-	5,197	(1,385)
Unrestricted	2,573,478	1,838,381	1,150,742	1,497,218	3,724,220	3,335,599
Total Net Assets	\$ 8,600,641	\$ 6,774,190	\$ 5,409,167	\$ 4,840,779	\$ 14,009,808	\$ 11,614,969

The Town's unrestricted total net position of \$3,724,220 or 26.58% of total net position may be used to meet the Town's ongoing obligations to citizens and creditors.

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

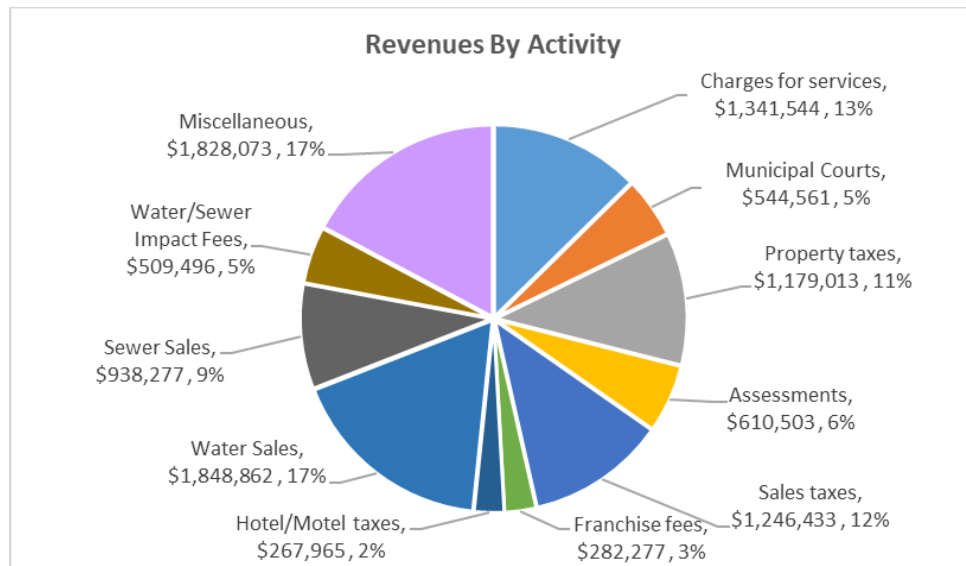
Town of Northlake, Texas
 Management's Discussion and Analysis
 September 30, 2017

Government-wide Financial Analysis (continued)

The increase in revenues of the Town is highlighted by the following activity:

- Miscellaneous revenues rose by 490.00% or \$1,297,816 due the receipt of \$1,170,000 from Denton County for their partnership in the Dale Earnhardt Way road project.
- Interest income rose by 178.91% or \$84,763 due to the receipt of \$6,990,000 in bond proceeds for roadway projects and heavy equipment.
- Business-type activities for water/sewer utilities increased by 26.47% or 692,77 due to both new residential and commercial development.
- Due to new housing starts and the improved economic conditions, building permits and other fees rose 26.36% or \$279,845 from the prior fiscal year.
- Overall, taxes increased \$178,482 or 6.38% and is mainly attributable to new homes in the Town and increases in property tax valuations.

The following chart depicts the Town's revenues by activity:

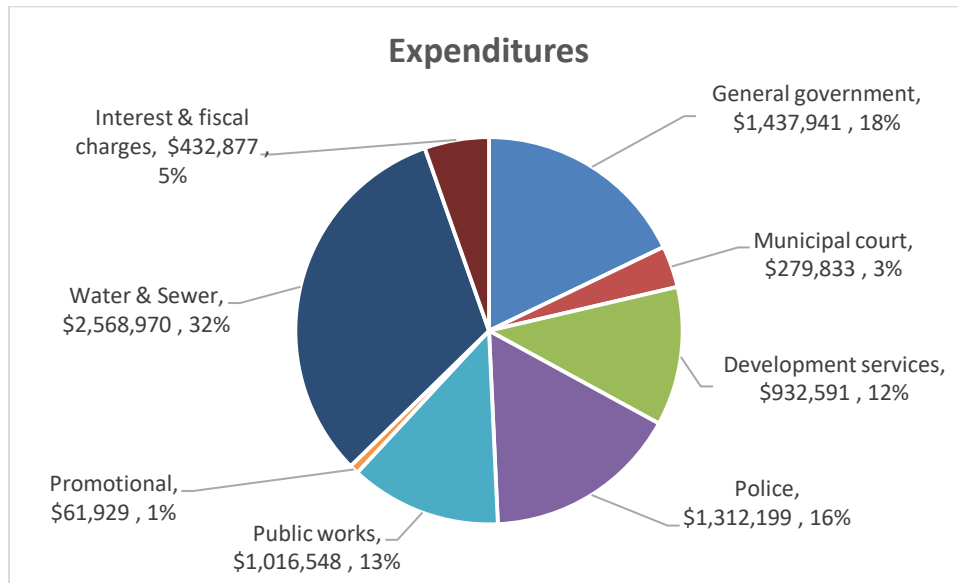


When compared with the prior fiscal year, government-wide expenditures increased 31.55% or \$1,929,075.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Government-wide Financial Analysis (continued)

Expenditures for governmental programs increased 21.64% or \$973,905 while business-type activities increased 59.19% or \$955,170. The following chart depicts government-wide expenditures for fiscal year 2017:



Increases in the Town's expenditures can be attributed to the following activities:

- Public Works had a 54.41% increase or \$358,196 in expense due to roadway project engineering fees.
- Developmental Services experienced a 46.59% or \$296,405 rise in expenditures due to the payment of incentives totaling \$272,500 for Farmer Bros. Co., Rosa's Café and Sonic. In addition, \$166,106 of construction sales taxes were reimbursed for the development of the Northport 35 industrial complex.
- The Town experienced a 70.46% or \$1,210,100 increase in capital expenditures for infrastructure and roadway projects during fiscal year 2017. Expenditures of \$1,300,000 occurred in The Highlands Public Improvement District for infrastructure and roadways. In addition, the Town completed the Dale Earnhardt Way road project and began work on the Florance Road and Cleveland-Gibbs roadway projects.
- The Town's Water/Sewer enterprise fund experienced expenditure increases of \$955,170 due to providing services for both new residential homes and commercial development.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Government-wide Financial Analysis (continued)

The following chart compares the Town's change in net position to the prior fiscal year n for both governmental and business-type activities:

<i>Town of Northlake's Changes in Net Position</i>						
	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Program Revenues:						
Fees, Fines and Charges for Services	\$ 1,886,105	\$ 1,655,051	\$ 3,296,635	\$ 2,584,170	\$ 5,182,740	\$ 4,239,221
General Revenues:						
Property Taxes	1,179,013	922,534	-	-	1,179,013	922,534
PID Assessment	610,503	436,420	-	-	610,503	436,420
Sales Taxes	1,246,433	1,359,296	-	-	1,246,433	1,359,296
Franchise Taxes	282,277	257,563	-	-	282,277	257,563
Developer Contributions	-	-	-	-	-	-
Hotel/Motel Taxes	267,965	257,813	-	-	267,965	257,813
Interest on Investment	113,463	40,944	18,677	6,433	132,140	47,377
Miscellaneous	1,542,348	204,122	20,324	60,734	1,562,672	264,856
	<u>7,128,107</u>	<u>5,133,743</u>	<u>3,335,636</u>	<u>2,651,337</u>	<u>10,463,743</u>	<u>7,785,080</u>
Expenses:						
General Government	1,437,941	1,562,134	-	-	1,437,941	1,562,134
Municipal Court	279,833	238,250	-	-	279,833	238,250
Police	1,312,199	1,139,912	-	-	1,312,199	1,139,912
Public Works	1,016,548	658,352	-	-	1,016,548	658,352
Development Services	932,591	636,186	-	-	932,591	636,186
Promotional	61,929	38,233	-	-	61,929	38,233
Interest and fiscal charges	432,877	226,945	26,016	34,494	458,893	261,439
Water and Sewer	-	-	2,568,970	1,613,800	2,568,970	1,613,800
	<u>5,473,918</u>	<u>4,500,013</u>	<u>2,594,986</u>	<u>1,648,294</u>	<u>8,068,904</u>	<u>6,148,307</u>
Change in Net Assets Before Transfers	1,654,189	633,730	740,650	1,003,043	2,394,839	1,636,773
Transfers	172,262	146,629	(172,262)	(146,629)	-	-
Change in Net Assets	<u>1,826,451</u>	<u>780,359</u>	<u>568,388</u>	<u>856,414</u>	<u>2,394,839</u>	<u>1,636,773</u>
Net Assets 9/30 Prior Year	6,774,190	5,920,802	4,840,779	3,984,365	11,614,969	9,905,167
Prior Period Adjustment	-	73,029	-	-	-	73,029
Net Assets 9/30 Current Year	<u>\$ 8,600,641</u>	<u>\$ 6,774,190</u>	<u>\$ 5,409,167</u>	<u>\$ 4,840,779</u>	<u>\$ 14,009,808</u>	<u>\$ 11,614,969</u>

Financial Analysis of the Government's Funds

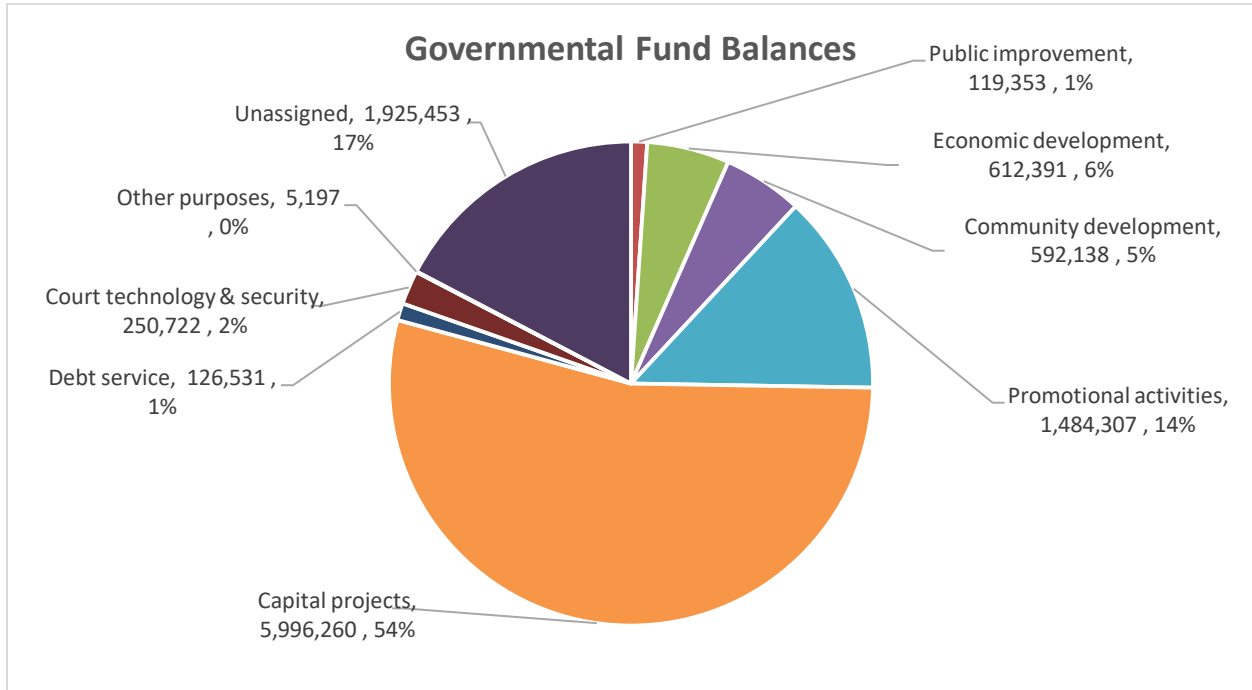
As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

Town of Northlake, Texas
 Management's Discussion and Analysis
 September 30, 2017

Financial Analysis of the Government's Funds (continued)

At the end of the current fiscal year, the Town of Northlake's governmental funds reported combined ending fund balances of \$11,112,352. When compared to the prior fiscal year end, the combined fund balances experienced an increase of \$5,244,021 or an 88.72%. The increases to the fund balance have been discussed in the above sections. The following chart depicts the fund balances as of September 30, 2017:



Only 17% or \$1,925,453 of the Town's total governmental fund balance is unassigned and may be used, at the Mayor's and Council's discretion, for its citizens or creditors. The remaining governmental fund balances are restricted for specific purposes as follows:

Restricted Governmental Fund Balances:

Public improvement	\$ 119,353
Economic development	612,391
Community development	592,138
Promotional activities	1,484,307
Capital projects	5,996,260
Debt service	126,531
Court technology & security	250,722
Other purposes	5,197
Total Restricted Governmental Fund Balance	<u>\$ 9,186,899</u>

Proprietary Funds. The Town's proprietary fund statements provide the same type of information found in the government-wide financial statements.

Town of Northlake, Texas
 Management's Discussion and Analysis
 September 30, 2017

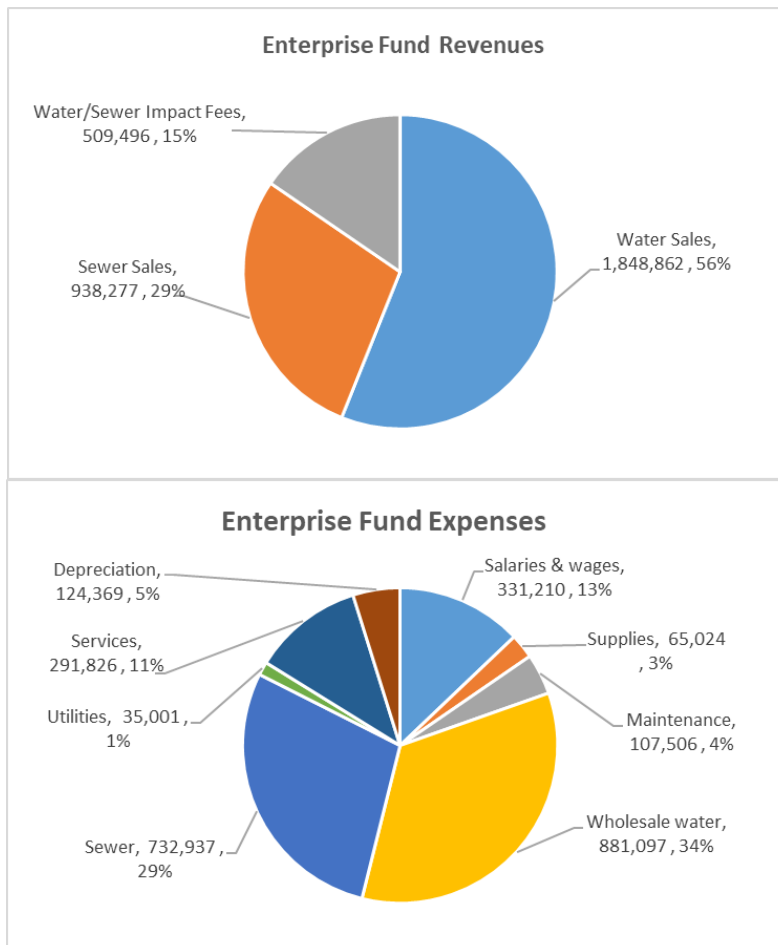
Financial Analysis of the Government's Funds (continued)

Total net position for business-type activities is \$5,409,167 and is comprised of \$1,150,742 or 21.27% in unrestricted net position while \$4,258,425 or 78.73% reflects its investment in capital assets (e.g., land, buildings, automobiles, equipment, construction in progress, water and sewer system and infrastructure), less any debt used to acquire those assets that is still outstanding.

Net position invested in capital assets is used to provide services to water and sewer customers; consequently, these assets are not available for future spending. Although the Town'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.

Unrestricted net position of the proprietary funds for business-type activities decreased by \$346,476 or 23.14% from the prior year. This increase is mainly attributable to increases in water and sewer service revenues from commercial development and new home construction. The unrestricted surplus may be used to meet future service and debt needs.

The chart below depicts the revenues and expenditure of the Town's Enterprise Fund:



Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Financial Analysis of the Government's Funds (continued)

Internal Service Funds. The Town has three internal service funds that are utilized to provide equipment and services to the departments of the Town. These funds are comprised of the Technology Internal Service Fund, Equipment Internal Service Fund and Building Service Fund. These internal service funds are maintained by budgeted quarterly transfers from the departments within the Town and by Town Council's approved funding for specific large purchases.

The Internal Service Funds of the Town are presented as a component of the Proprietary Funds. Similar to business-type activities, internal service funds net investment in capital assets are used to provide services to the departments of the Town and are not available for future spending. As of September 30, 2017, the internal service funds of the Town had the following net positions:

Internal Service Funds Net Position

Fund Name	Fund Balance
Technology Fund	\$ 89,719
Equipment Fund	788,212
Building Services Fund	<u>579,904</u>
Subtotal	\$ 1,457,835
Net Position	
Net investment in capital assets	691,623
Unrestricted	<u>766,212</u>
Total net position	<u>\$ 1,457,835</u>

The unrestricted net position of the internal service funds is \$766,212 which represents an increase of \$480,215 or 167.91% from the prior year. This increase is attributable to prefunding the finish out of future Town facilities and technology improvements.

Capital Asset and Debt Administration

Capital Assets. As of September 30, 2017, the Town's investment in capital assets for its governmental and business-type activities amounts to \$13,053,119 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, automobiles, equipment, infrastructure, water and sewer system and construction in progress. When compared to the prior fiscal year end, total investment of the Town in capital assets increased 28.43% or \$2,889,379.

Major capital asset events during fiscal year 2017 included the following:

- Roadway improvements for Sam Lee Lane, Cleveland-Gibbs Road and Florance Road.
- Roadway and infrastructure improvements in The Highlands Public Improvement District.
- Purchase of Police Department ticket writers, radios, cameras and software.
- New computer server and storage network.
- Three new vehicles; one for the Public Works Department and two for the Police Department.
- Purchase of radio read meters for new homes and commercial development (ongoing project).

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Capital Asset and Debt Administration (continued)

The chart below illustrates the Town's capital assets, net of accumulated depreciation:

Town of Northlake's Capital Assets (Net of Accumulated Depreciation)

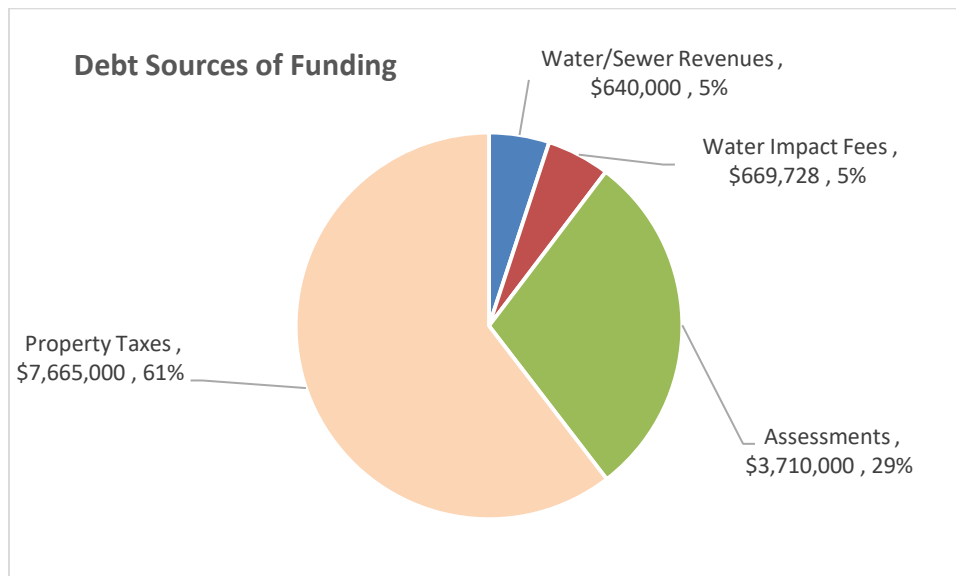
	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Land	\$ 2,770,951	\$ 2,770,951	\$ 97,567	\$ 97,567	\$ 2,868,518	\$ 2,868,518
Construction in Progress	317,927	-	-	588,040	317,927	588,040
Buildings and Improvements	158,701	180,751	26,248	27,421	184,949	208,172
Automobiles	660,543	403,437	-	844	660,543	404,280
Equipment	118,161	64,443	-	-	118,161	64,443
Infrastructure	4,768,410	2,570,998	-	-	4,768,410	2,570,998
Water and Dewer System	-	-	4,134,610	3,459,288	4,134,610	3,459,288
Total	\$ 8,794,693	\$ 5,990,580	\$ 4,258,425	\$ 4,173,160	\$ 13,053,118	\$ 10,163,740

Additional information on the Town's capital assets can be found in Note 4 of this report.

Long-term Debt. At the end of the current fiscal year, the Town had total debt of \$12,309,728 of which \$12,015,175 are Certificates of Obligation. When compared to the prior fiscal year, the Town's total debt increased by \$6,215,129. The increase is due to the issuance of \$6,990,000 in certificates of obligation for roadway projects and heavy equipment and the issuance of \$1,390,000 refunding bonds.

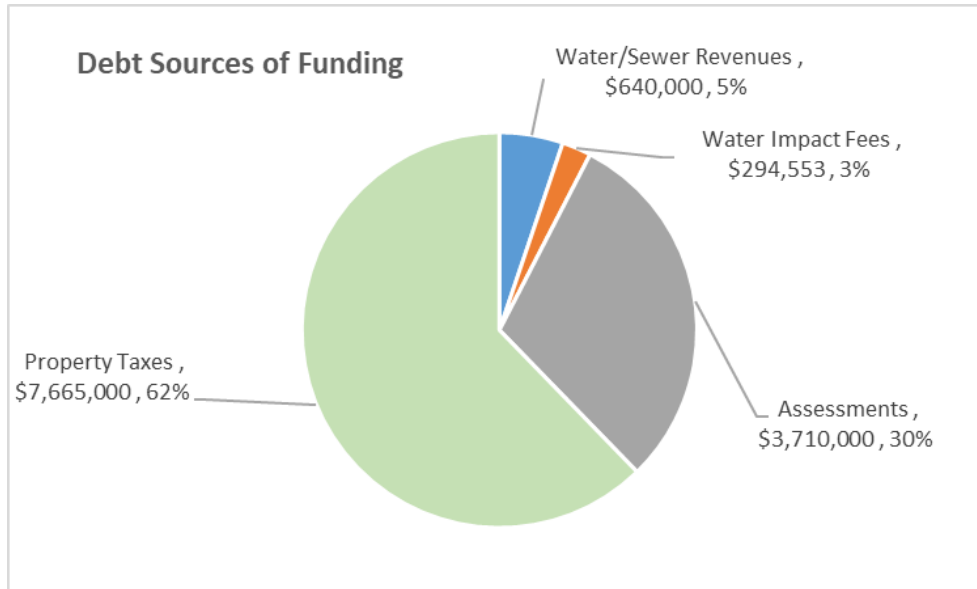
The refunding bonds were issued to retire the 2005 series bond issuance. The improved interest rate is anticipated to save the Town \$183,933 in interest expense.

The following charts illustrates the purpose of the Town's debt and the revenue sources utilized to pay for the outstanding debt:



Town of Northlake, Texas
 Management's Discussion and Analysis
 September 30, 2017

Capital Asset and Debt Administration (continued)



During the fiscal year, the Town retired \$2,164,871 in debt. Regularly scheduled annual principal and interest payments were made in a timely manner.

The following table represents the outstanding debt of the Town:

	Governmental Activities		Business-type Activities		Total	
	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16	FY 2016-17	FY 2015-16
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Note Payable	-	-	294,553	439,478	294,553	439,478
Certificates of Obligation	11,640,000	5,265,000	375,175	390,121	12,015,175	5,655,121
Total	\$ 11,640,000	\$ 5,265,000	\$ 669,728	\$ 829,599	\$ 12,309,728	\$ 6,094,599

Additional information on the Town's long-term debt can be found in Note 5 of this report on page 43.

Governmental Funds Budgetary Highlights

The Town anticipated the general fund balance to increase by the end of fiscal year by \$87,432, from \$1,575,023 to \$1,662,455. The actual results of the fiscal year activity saw an increase of \$350,430 in fund balance for an ending fund balance of \$1,925,453. This variance is mainly attributable to two vacancies in the Police Department. The Town does not anticipate that this trend will continue during fiscal year 2018.

The Public Improvement Districts of the Town experienced a budget variance of (\$1,280,931) due to the payment of \$1,300,000 for infrastructure and roadway improvements in The Highlands Public Improvement District. The completion of these projects was not anticipated until fiscal year 2018.

Town of Northlake, Texas
Management's Discussion and Analysis
September 30, 2017

Governmental Funds Budgetary Highlights (continued)

The Type A Economic Development Corp. and the Type B Community Development Corporation of the Town ended the fiscal year with combined positive budget variance of \$222,167. This is due to a comprehensive market retail study being delayed until fiscal year 2018.

When compared to budget expectations, the Capital Projects Fund experienced increase in fund balance of \$785,189 that was not anticipated. This is due to Denton County paying \$1,170,000 for their partnership in the Dale Earnhardt Way road project.

By the end of fiscal year 2017, the Hotel Motel Tax Fund balance experienced a better than expected increase in fund balance by \$28,624. The increase is from less police personnel being utilized for special events.

Details regarding budgetary variances can be found beginning on page 58.

Economic Factors and Next Year's Budgets and Rates

The Town of Northlake does not plan on increasing any property tax rates during the fiscal year 2017-2018. Overall, general fund revenues are expected to be higher during the next fiscal year. Due to the continued residential and commercial development, property tax revenue and development fees are expected to increase during fiscal year 2017-2018. Expenses for the general fund are expected to slightly increase due to the Town's staffing of new positions, maintaining of service levels and the increase development related expenditures. The Town anticipates the maintaining of a surplus fund balance at the end of fiscal year 2018.

Water and sewer fund revenues are expected to be higher than fiscal year 2017-2018 due to additional customers. In order to maintain service levels with the increase in new customers, expenditures are expected to rise in fiscal year 2018. The increase will occur from an increase in staff levels, maintenance costs and the purchase of wholesale water. The water and sewer fund projects a surplus in fund balance at the end of fiscal year 2018.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Town's finances. If you have questions about this report or need additional information, contact the Town Secretary: Attn: Town Secretary at 1400 FM 407, Northlake, Texas 76247, phone: (940) 648-3290 or email townsecretary@town.northlake.tx.us.

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BASIC FINANCIAL STATEMENTS

Town of Northlake, Texas
Statement of Net Position
September 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 12,057,881	\$ 1,719,998	\$ 13,777,879
Receivables (net of allowance for uncollectibles)	399,088	324,038	723,126
Prepaid expense	4,376	1,794	6,170
Loan receivable	294,553	-	294,553
Other assets	21,167	288,114	309,281
Capital Assets (net of accumulated depreciation):			
Land	3,088,878	97,567	3,186,445
Buildings and improvements	158,701	26,248	184,949
Automobiles	660,544	-	660,544
Equipment	118,161	-	118,161
Infrastructure	4,768,411	-	4,768,411
Water and sewer system	-	4,134,610	4,134,610
Total assets	<u>21,571,760</u>	<u>6,592,369</u>	<u>28,164,129</u>
Deferred outflows of resources			
Deferred outflows of resources	<u>262,925</u>	<u>54,338</u>	<u>317,263</u>
Total deferred outflows of resources	262,925	54,338	317,263
Liabilities			
Accounts payable	583,416	171,401	754,817
Accrued liabilities	84,114	309,172	393,286
Noncurrent liabilities:			
Net pension liabilities	350,103	77,296	427,399
Due within one year	549,288	319,180	868,468
Due in more than one year (net of unamortized bond premium)	<u>11,405,143</u>	<u>360,491</u>	<u>11,765,634</u>
Total liabilities	<u>12,972,064</u>	<u>1,237,540</u>	<u>14,209,604</u>
Deferred inflows of resources			
Deferred inflows of resources	<u>261,980</u>	-	<u>261,980</u>
Total deferred inflows of resources	261,980	-	261,980
Net Position			
Invested in capital assets, net of related debt	(3,159,736)	4,258,425	1,098,689
Restricted for:			
Public improvement	119,353	-	119,353
Economic development	612,391	-	612,391
Community development	592,138	-	592,138
Promotional activities	1,484,307	-	1,484,307
Capital projects	5,996,260	-	5,996,260
Debt service	126,531	-	126,531
Court technology, security & child safety	250,722	-	250,722
Other purposes	5,197	-	5,197
Unrestricted	<u>2,573,478</u>	<u>1,150,742</u>	<u>3,724,220</u>
Total net position	<u>\$ 8,600,641</u>	<u>\$ 5,409,167</u>	<u>\$ 14,009,808</u>

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

Town of Northlake, Texas
Statement of Activities
Year Ended September 30, 2017

Program Activities	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 1,437,941	\$ 1,341,544	\$ -	\$ -	\$ (96,397)	\$ -	\$ (96,397)
Municipal court	279,833	544,561	-	-	264,728	-	264,728
Development services	932,591	-	-	-	(932,591)	-	(932,591)
Police	1,312,199	-	-	-	(1,312,199)	-	(1,312,199)
Public works	1,016,548	-	-	-	(1,016,548)	-	(1,016,548)
Promotional	61,929	-	-	-	(61,929)	-	(61,929)
Interest and fiscal charges	432,877	-	-	-	(432,877)	-	(432,877)
Total governmental activities	5,473,918	1,886,105	-	-	(3,587,813)	-	(3,587,813)
Business-type activities:							
Water and sewer	2,568,970	3,296,635	-	-	-	727,665	727,665
Interest and fiscal charges	26,016	-	-	-	-	(26,016)	(26,016)
Total business-type activities	2,594,986	3,296,635	-	-	-	701,649	701,649
Total primary government	\$ 8,068,904	\$ 5,182,740	\$ -	\$ -	\$ (3,587,813)	\$ 701,649	\$ (2,886,164)
General revenues:							
Taxes							
Property taxes					1,179,013	-	1,179,013
Sales taxes					1,246,433	-	1,246,433
Franchise taxes					282,277	-	282,277
Hotel/Motel taxes					267,965	-	267,965
Interest					113,463	18,677	132,140
Assessment					610,503	-	610,503
Miscellaneous					1,542,348	20,324	1,562,672
Transfers					172,262	(172,262)	-
Total general revenues and transfers					5,414,264	(133,261)	5,281,003
Change in net position					1,826,451	568,388	2,394,839
Net position - beginning					6,774,190	4,840,779	11,614,969
Net position - ending					\$ 8,600,641	\$ 5,409,167	\$ 14,009,808

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

Town of Northlake, Texas
Balance Sheet - Governmental Funds
September 30, 2017

	General Fund	Public Improvement Districts Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
Assets									
Cash and cash equivalents	\$ 2,160,606	\$ 140,767	\$ 563,700	\$ 543,498	\$ 1,161,720	\$ 6,314,199	\$ 146,943	\$ 256,188	\$ 11,287,621
Receivables:									
Property taxes, net	6,683	-	-	-	-	-	3,373	-	10,056
Sales taxes	91,921	-	45,970	45,970	-	-	-	-	183,861
Franchise taxes	82,085	-	-	-	-	-	-	-	82,085
Hotel/Motel taxes	-	-	-	-	28,322	-	-	-	28,322
Municipal court receivable, net	10,001	-	-	-	-	-	-	-	10,001
Other accounts receivable	79,784	-	-	-	-	-	-	-	79,784
Assessment	-	4,979	-	-	-	-	-	-	4,979
Loan receivable	-	-	-	-	294,553	-	-	-	294,553
Other assets	3,085	-	2,736	2,685	-	-	-	12,661	21,167
Total assets	2,434,165	145,746	612,406	592,153	1,484,595	6,314,199	150,316	268,849	12,002,429
Liabilities and Fund Balance									
Liabilities:									
Accounts payable	277,543	-	15	15	16	296,900	-	503	574,992
Accrued liabilities	-	21,345	-	-	272	-	19,988	1,176	42,781
Deferred revenue	231,169	5,048	-	-	-	21,039	3,797	11,251	272,304
Total liabilities	508,712	26,393	15	15	288	317,939	23,785	12,930	890,077
Fund balance:									
Restricted for									
Public improvement	-	119,353	-	-	-	-	-	-	119,353
Economic development	-	-	612,391	-	-	-	-	-	612,391
Community development	-	-	-	592,138	-	-	-	-	592,138
Promotional activities	-	-	-	-	1,484,307	-	-	-	1,484,307
Capital projects	-	-	-	-	-	5,996,260	-	-	5,996,260
Debt service	-	-	-	-	-	-	126,531	-	126,531
Court technology and security	-	-	-	-	-	-	-	250,722	250,722
Other purposes	-	-	-	-	-	-	-	5,197	5,197
Unassigned	1,925,453	-	-	-	-	-	-	-	1,925,453
Total fund balance	1,925,453	119,353	612,391	592,138	1,484,307	5,996,260	126,531	255,919	11,112,352
Total liabilities and fund balance	\$ 2,434,165	\$ 145,746	\$ 612,406	\$ 592,153	\$ 1,484,595	\$ 6,314,199	\$ 150,316	\$ 268,849	\$ 12,002,429

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

Town of Northlake, Texas
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 September 30, 2017

Total fund balances - governmental funds	\$ 11,112,352
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	8,103,072
Revenues earned but not available within sixty days of the year end are not recognized as revenue in the fund financial statements.	10,324
Costs associated with the issuance of governmental long-term debt are expensed when incurred in the fund statements and capitalized and amortized over the life of the debt in the government-wide financial statements.	262,925
Interest payable on long term debt does not require current financial resources; therefore interest payable is not reported as a liability in the governmental funds balance sheet.	(41,333)
Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and therefore are not reported in the fund financial statements.	(12,304,534)
Internal service funds are used by management to charge the costs of equipment to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	<u>1,457,835</u>
Net position of governmental activities	<u><u>\$ 8,600,641</u></u>

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

Town of Northlake, Texas
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
Year ended September 30, 2017

	General Fund	Public Improvement Districts Fund	Economic Development Corporation 4A	Community Development Corporation 4B	Hotel/Motel Tax Fund	Capital Projects Fund	Debt Service Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues									
Taxes:									
Property	\$ 744,911	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 408,634	\$ 36,896	\$ 1,190,441
Sales and beverage	623,492	-	311,471	311,470	-	-	-	-	1,246,433
Franchise	282,277	-	-	-	-	-	-	-	282,277
Hotel/Motel	-	-	-	-	267,965	-	-	-	267,965
Building permits, plant and other fees	1,341,544	-	-	-	-	-	-	-	1,341,544
Municipal court	592,248	-	-	-	-	-	-	-	592,248
Interest income	4,487	8,857	1,058	1,031	17,407	65,504	1,216	3,675	103,235
Assessment	-	610,503	-	-	-	-	-	-	610,503
Miscellaneous	150,262	-	21,990	21,990	-	1,206,407	55	49,660	1,450,364
Total revenues	<u>3,739,221</u>	<u>619,360</u>	<u>334,519</u>	<u>334,491</u>	<u>285,372</u>	<u>1,271,911</u>	<u>409,905</u>	<u>90,231</u>	<u>7,085,010</u>
Expenditures									
Current:									
General government	739,626	297,641	-	-	-	138,800	-	30,314	1,206,381
Municipal court	235,974	-	-	-	-	-	-	39,554	275,528
Development services	386,394	-	273,129	273,068	-	-	-	-	932,591
Police	1,227,348	-	-	-	31,666	-	-	4,312	1,263,326
Public works	466,097	-	-	-	-	214,995	-	-	681,092
Promotional	-	-	17,839	17,878	26,212	-	-	-	61,929
Capital outlay	-	1,300,000	-	-	-	1,617,927	-	9,657	2,927,584
Debt service:									
Principal	-	165,000	-	-	-	-	1,840,000	-	2,005,000
Interest and fiscal charges	-	110,875	-	-	-	-	348,401	-	459,276
Total expenditures	<u>3,055,439</u>	<u>1,873,516</u>	<u>290,968</u>	<u>290,946</u>	<u>57,878</u>	<u>1,971,722</u>	<u>2,188,401</u>	<u>83,837</u>	<u>9,812,707</u>
Excess (deficiency) of revenues over expenditures	683,782	(1,254,156)	43,551	43,545	227,494	(699,811)	(1,778,496)	6,394	(2,727,697)
Other financing sources (uses)									
Proceeds of long-term debt	-	-	-	-	-	-	8,380,000	-	8,380,000
Premium on bond	-	-	-	-	-	-	215,287	-	215,287
Transfers in	200,000	-	-	-	-	6,685,000	50,000	-	6,935,000
Transfers out	(533,352)	-	(26,739)	(26,739)	(1,739)	-	(6,990,000)	-	(7,578,569)
Total other financing sources (uses)	<u>(333,352)</u>	<u>-</u>	<u>(26,739)</u>	<u>(26,739)</u>	<u>(1,739)</u>	<u>6,685,000</u>	<u>1,655,287</u>	<u>-</u>	<u>7,951,718</u>
Net change in fund balances	350,430	(1,254,156)	16,812	16,806	225,755	5,985,189	(123,209)	6,394	5,224,021
Fund balances - beginning	1,575,023	1,373,509	595,579	575,332	1,258,552	11,071	249,740	249,525	5,888,331
Fund balances - ending	<u>\$ 1,925,453</u>	<u>\$ 119,353</u>	<u>\$ 612,391</u>	<u>\$ 592,138</u>	<u>\$ 1,484,307</u>	<u>\$ 5,996,260</u>	<u>\$ 126,531</u>	<u>\$ 255,919</u>	<u>\$ 11,112,352</u>

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

Town of Northlake, Texas
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances - Governmental Funds to the Statement of Activities
 Year ended September 30, 2017

Net changes in fund balances - total governmental funds	\$ 5,224,021
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>	
<p>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 of capital assets recorded in the current period.</p>	2,927,584
<p>Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.</p>	(465,321)
<p>The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	(6,575,927)
<p>Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.</p>	(10,425)
<p>Current year changes in accrued interest payable do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>	12,039
<p>Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.</p>	(59,115)
<p>Certain expenses in the government-wide statement of activities that do not require current financial resources are not reported as expenditures in the governmental funds.</p>	(48,472)
<p>Internal service funds are used by management to charge the costs of equipment to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.</p>	<u>822,067</u>
Change in net position of governmental activities	<u>\$ 1,826,451</u>

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

Town of Northlake, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service Funds
	Water and Sewer	Equipment
Assets		
Current assets:		
Deposits and investments	\$ 1,719,998	\$ 770,260
Accounts receivable, net	324,038	-
Prepaid expense	1,794	4,376
Other current assets	114	-
Total current assets	2,045,944	774,636
Non-current assets:		
Other assets	288,000	-
Property, plant and equipment:		
Land	97,567	-
Buildings and improvements	35,211	18,934
Equipment	4,925	133,458
Automobiles	42,214	938,025
Water and sewer system	4,729,892	-
	4,909,809	1,090,417
Less: accumulated depreciation	651,384	398,794
Net property, plant and equipment	4,258,425	691,623
Total Assets	6,592,369	1,466,259
Deferred outflows of resources		
Deferred outflow of resources	54,338	-
Total deferred outflows of resources	54,338	-
Liabilities		
Current liabilities:		
Accounts payable	171,401	8,424
Accrued liabilities	309,172	-
Note payable	294,553	-
Certificates of obligation	20,000	-
Compensated absences	4,627	-
Total current liabilities	799,753	8,424
Noncurrent liabilities:		
Net pension liabilities	77,296	-
Certificates of obligation	355,175	-
Compensated absences	5,316	-
Total Liabilities	1,237,540	8,424
Net position		
Net investment in capital assets	4,258,425	691,623
Unrestricted	1,150,742	766,212
Total Net Position	\$ 5,409,167	\$ 1,457,835

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

Town of Northlake, Texas
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year ended September 30, 2017

	Business Type Activities - Enterprise Fund <u>Water and Sewer</u>	Governmental Activities - Internal Service Funds <u>Equipment</u>
Operating revenues:		
Water and sewer service	\$ 3,296,635	\$ -
Equipment service revenue	-	260,000
Total operating revenues	<u>3,296,635</u>	<u>260,000</u>
Operating expenses:		
Operating expenses	2,444,601	182,919
Depreciation	<u>124,369</u>	<u>174,562</u>
Total operating expenses	<u>2,568,970</u>	<u>357,481</u>
Operating income (loss)	727,665	(97,481)
Nonoperating revenues (expenses):		
Interest income (expense)	(7,339)	10,228
Miscellaneous revenue (expense)	<u>20,324</u>	<u>93,489</u>
Total nonoperating revenues	<u>12,985</u>	<u>103,717</u>
Income (loss) before transfers	740,650	6,236
Transfers in	-	815,831
Transfers out	<u>(172,262)</u>	<u>-</u>
Change in net position	568,388	822,067
Net position - beginning	<u>4,840,779</u>	<u>635,768</u>
Net position - ending	<u>\$ 5,409,167</u>	<u>\$ 1,457,835</u>

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

Town of Northlake, Texas
Statement of Cash Flows
Proprietary Funds
Year ended September 30, 2017

	Business Type Activities - Enterprise Fund Water and Sewer	Governmental Activities - Internal Service Funds Equipment
Operating Activities		
Cash received from customers	\$ 3,230,532	\$ 260,000
Cash payments to suppliers for goods and services	(2,175,792)	(166,349)
Net cash provided by operating activities	1,054,740	93,651
Noncapital Financing Activities		
Transfers from other funds	-	815,831
Transfers to other funds	(172,262)	-
Net cash used in noncapital financing activities	(172,262)	815,831
Capital and Related Financing Activities		
Proceed from insurance	20,324	93,489
Payments on note	(181,261)	-
Net cash used in capital and related financing activities	(160,937)	93,489
Investing Activities		
Capital expenditures	(209,634)	(516,414)
Interest received	18,678	10,228
Net cash provided by investing activities	(190,956)	(506,186)
Net increase in cash and cash equivalents	530,585	496,785
Cash and cash equivalents - beginning	1,189,413	273,475
Cash and cash equivalents - ending	1,719,998	770,260
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	727,665	(97,481)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	124,369	174,562
Change in assets and liabilities:		
Accounts receivable	(66,103)	-
Deferred outflow of resources	(7,094)	-
Other assets	87,636	8,917
Net pension liability	18,137	-
Accounts payable and accrued liabilities	170,130	7,653
Net cash provided by (used in) operating activities	\$ 1,054,740	\$ 93,651

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

1. Summary of Significant Accounting Policies

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in Section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are described below.

A. Financial Reporting Entity

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

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

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

The Northlake Economic Development Corporation 4A (the 4A Corporation) and the Northlake Community Development Corporation 4B (the 4B Corporation) are component units of the Town and are included in the basic financial statements as major special revenue funds using a blended presentation.

The 4A Corporation was formed to promote the public welfare and economic development for the areas within the Town of Northlake as authorized by the State under the Texas Development Corporation Act of 1979 and is governed by Section 4A of the act. The 4A Corporation receives funding from a one-half cent sales tax.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

A. Financial Reporting Entity (continued)

The 4B Corporation was formed to promote economic development with the Town and the State of Texas in order to eliminate unemployment and the public welfare of, for and on behalf of the Town by undertaking, developing, implanting, providing and financing projects under the Development Corporation Act of 1979 as defined in Section 4B of the Act. The 4B Corporation receives funding from a one-half cent sales tax.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the Town. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Fund Financial Statements

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

General Fund

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

Public Improvement Districts Fund

The Public Improvement Districts Fund is used to account for special assessments collected for an area specific purpose. Funds are expended on costs associated with the specified improvements.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

Economic Development Corporation 4A Fund

The Economic Development Corporation 4A is used to account for the funds received from a one-half cent sales tax to be used for economic development.

Community Development Corporation 4B Fund

The Community Development Corporation 4B is used to account for the funds received from a one-half cent sales tax to be used for community development.

Hotel/Motel Tax Fund

The Hotel/Motel Tax Fund is used to account for Hotel/Motel tax receipts to be used for promotional purposes.

Capital Projects Fund

The Capital Projects Fund is used to account and track major governmental projects of the Town. Funds are restricted for expenditures associated with specific projects.

Debt Service Fund

The Debt Service Fund is utilized to service interest and principal payments on the Towns debt. Property taxes are the source of funding to pay for the debt and is a component of the total property tax rate levied by the Town.

Other Non Major Funds

The Other Non Major Funds are used to account for special revenue and tax increment reinvestment zone funds created by the Town, which do not meet the requirements to be presented as a major fund of the Town.

Proprietary Funds

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

Water and Sewer Fund

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

Water and Sewer Fund (continued)

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

Internal Service Fund

Internal service funds are used to account for the financing of goods or service provided by one department to other departments of the Town on a cost reimbursement basis. The equipment fund accounts for the accumulation and allocation of costs associated with major equipment purchases and maintenance of the equipment. The internal service fund is presented as a proprietary fund in the funds financial statements. Since transactions of the internal service fund predominately involves providing services to the General Fund and other funds that comprise governmental activities of the Town, the financial balances are included in the government activities column of the government-wide statements.

C. Measurement Focus/Basis of Accounting

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

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

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

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

C. Measurement Focus/Basis of Accounting (continued)

Use of Restricted/Unrestricted Net Position

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

Taxes

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attached as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for towns, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The Town's current tax rate is \$0.295 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

Cash and Cash Equivalents

Cash and investments are considered to be cash on hand and demand and time deposits, as well as short-term investments in State investment pools.

For purposes of the statement of cash flows (proprietary fund types), the Town considers cash deposits and highly liquid investments (including restricted assets) maturing in three months or less when purchased, to be cash equivalents.

All investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

Inventories and Prepaid Items

Cash Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

Interfund Receivables and Payables

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

Transactions between Funds

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

C. Measurement Focus/Basis of Accounting (continued)

Pensions

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

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment, in accordance with standards prescribed by GASB.

Assets capitalized, not including infrastructure assets, have an original cost of \$1,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	30 Years
Automobiles	3 Years
Equipment	3 - 10 Years
Infrastructure	5 - 40 Years
Water and sewer system	30 - 50 years

Compensated Absences

Town employees are granted vacation days in varying amounts. The maximum vacation allowed to be carried over is 320 hours per calendar year (January through December) for all employees. Any hours over 320 at the end of a year shall be deleted from the employee's accruals. Pay in lieu of taking vacation is not permitted except upon termination. Accrued vacation is paid upon termination after working for the town for at least 12-months. Sick leave is accrued at the rate of eight (8) hours per month for regular full-time employees and on a pro rata basis for regular part-time employees for each month of continuous service. Sick leave may be accumulated up to a maximum of 90 days (720 hours). No cash payment is made for unused sick days. Compensated absences are paid out of the General Fund and various funds based upon the employees' positions.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

C. Measurement Focus/Basis of Accounting (continued)

Net Position

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

2. Deposits and Investments

A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Town manages its exposure to interest rate risk is by investing mainly in investment pools that purchase a combination of shorter term investments with an average maturity of less than 90 days, thus reducing the interest rate risk. The Town monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The Town has no specific limitations with respect to this metric.

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

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity</u>
Logic	\$ 11,180,464	45 days
Wells Fargo	\$ 2,136,300	0 days

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

B. Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Amount</u>	<u>Minimum Legal Rating</u>	<u>Rating as of September 30, 2017</u>
Logic	\$ 11,180,464	AAA	AAA
Wells Fargo	\$ 2,136,300	AAA	AAA

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

2. Deposits and Investments (continued)

C. Concentration of Credit Risk

The investment policy of the Town contains no limitation on the amount that can be invested in any one issuer. As of September 30, 2017, other than external investment pools, the Town did not have 5% or more of its investments with one issuer.

D. Custodial Credit Risk

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

At September 30, 2017, the carrying amount of the Town's cash on hand and deposits were \$13,775,574 and the bank balance was \$14,056,642. The bank balance was fully covered by federal depository insurance and collateral pledged.

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

E. Investment in State Investment Pools

The Town is a voluntary participant in an investment pool, specifically LOGIC. LOGIC is a public funds investment pool managed by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC investments are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the Town is not issued securities, but rather it owns an individual beneficial interest in the assets of the related investment pools. LOGIC operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC uses amortized cost rather than market value to report new assets to compute share prices. Accordingly, the fair value of the position in LOGIC is the same as the value of LOGIC shares.

3. Accounts Receivable

Receivable balances have been disaggregated by type and presented separately in the financial statements. Only receivables with allowances for uncollectible amounts as of September 30, 2017, including the applicable allowances for uncollectible accounts, are presented below:

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

3. Accounts Receivable (continued)

	General Fund		Public Improvement Districts Fund	Debt Service Fund	Enterprise Fund Water and Sewer
	Property Tax Receivable	Municipal Court Receivable	Assessment Receivable	Property Tax Receivable	Accounts Receivable
Gross receivables	\$ 13,754	\$ 33,337	\$ 4,991	\$ 4,507	\$ 333,079
Less: allowance for uncollectibles	(7,071)	(23,336)	(12)	(1,134)	(9,041)
Net receivables	<u>\$ 6,683</u>	<u>\$ 10,001</u>	<u>\$ 4,979</u>	<u>\$ 3,373</u>	<u>\$ 324,038</u>

4. Capital Assets

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

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Governmental activities				
Capital assets not being depreciated				
Land	\$ 2,770,951	\$ 317,927	\$ -	\$ 3,088,878
Total capital assets not being depreciated	2,770,951	317,927	-	3,088,878
Capital assets being depreciated				
Buildings and improvements	332,084	-	-	332,084
Automobiles	1,034,048	432,983	-	1,467,031
Equipment	287,019	93,088	-	380,107
Infrastructure	5,020,410	2,600,000	-	7,620,410
Total capital assets being depreciated	6,673,561	3,126,071	-	9,799,632
Less: accumulated depreciation				
Buildings and improvements	151,333	22,050	-	173,383
Automobiles	630,612	175,876	-	806,488
Equipment	222,577	39,369	-	261,946
Infrastructure	2,449,412	402,587	-	2,851,999
Total accumulated depreciation	3,453,934	639,882	-	4,093,816
Total capital assets being depreciated, net	3,219,627	2,486,189	-	5,705,816
Governmental activities capital assets, net	<u>\$ 5,990,578</u>	<u>\$ 2,804,116</u>	<u>\$ -</u>	<u>\$ 8,794,694</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

4. Capital Assets (continued)

	Balance September 30, 2016	Additions/ Completions	Retirements/ Adjustments	Balance September 30, 2017
Business-type activities				
Capital assets not being depreciated				
Land	\$ 97,567	\$ -	\$ -	\$ 97,567
Construction in progress	588,040	-	(588,040)	-
Total capital assets not being depreciated	685,607	-	(588,040)	97,567
Capital assets being depreciated				
Buildings and improvements	35,211	-	-	35,211
Equipment	4,925	-	-	4,925
Automobiles	42,214	-	-	42,214
Water and sewer system	3,932,218	797,674	-	4,729,892
Total capital assets being depreciated	4,014,568	797,674	-	4,812,242
Less: accumulated depreciation				
Buildings and improvements	7,790	1,173	-	8,963
Equipment	4,081	844	-	4,925
Automobiles	42,214	-	-	42,214
Water and sewer system	472,930	122,352	-	595,282
Total accumulated depreciation	527,015	124,369	-	651,384
Total capital assets being depreciated, net	3,487,553	673,305	-	4,160,858
Business-type capital assets, net	<u>\$ 4,173,160</u>	<u>\$ 673,305</u>	<u>\$ (588,040)</u>	<u>\$ 4,258,425</u>

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

Governmental activities	
General Government	\$ 129,009
Municipal Court	4,305
Police	120,996
Public Works	385,572
Total Governmental Depreciation Expense	<u>\$ 639,882</u>
Business-type activities	
Water and sewer	\$ 77,355
Water & Sewer Capital Projects	47,014
Total Business-type depreciation expense	<u>\$ 124,369</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

5. Long-term Debt

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Certificates of Obligation \$4,170,000 Series 2014A Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$160,000 to \$285,000 through August 15, 2034, with interest at 2%	<u>\$ 3,710,000</u>	<u>\$ -</u>
Certificates of Obligation \$420,000 Series 2014B Combination Tax and Revenue Certificates of Obligation, due in annual installments of \$15,000 to \$25,000 through August 15, 2034, with interest at 3%	<u>\$ -</u>	<u>\$ 375,175</u>
Certificates of Obligation \$6,990,000 Series 2016 Combination Tax and Revenue certificates of Obligation, due in annual installments of \$220,000 to \$440,000 through April 15, 2036, with interest at 2.00%	<u>\$ 6,675,000</u>	<u>\$ -</u>
Certificates of Obligation \$1,390,000 Series 2016 General Obligation Refunding Bonds, due in annual installments of \$135,000 to \$175,000 through April 15, 2025, with interest at 2.00%	<u>\$ 1,255,000</u>	<u>\$ -</u>
Note Payable \$588,050 note payable due in annual installments of \$8,657 to \$294,553 through September 1, 2018, with interest at 3.5%	<u>\$ -</u>	<u>\$ 294,553</u>

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

	<u>Beginning of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>End of Year</u>	<u>Within One Year</u>
Governmental Activities					
Certificates of Obligation	\$ 5,265,000	\$ 8,380,000	\$ 2,005,000	\$ 11,640,000	\$ 525,000
Compensated Absences	103,079	89,317	78,892	113,504	24,288
Total governmental activities	<u>5,368,079</u>	<u>8,469,317</u>	<u>2,083,892</u>	<u>11,753,504</u>	<u>549,288</u>
Business-type Activities					
Certificates of Obligation	390,121	-	14,946	375,175	20,000
Note Payable	439,478	-	144,925	294,553	294,553
Compensated Absences	7,177	14,953	12,187	9,943	4,627
Total business-type activities	<u>\$ 836,776</u>	<u>\$ 14,953</u>	<u>\$ 172,058</u>	<u>\$ 679,671</u>	<u>\$ 319,180</u>

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

5. Long-term Debt (continued)

Annual Requirements to Retire Debt Obligations

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

Certificates of Obligations	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ 525,000	\$ 277,638	\$ 20,000	\$ 10,581	\$ 833,219
2019	540,000	267,138	20,000	10,181	837,319
2020	600,000	256,338	20,000	9,781	886,119
2021	660,000	244,338	20,000	9,381	933,719
2022	690,000	231,138	20,000	8,981	950,119
2023-2027	3,225,000	936,925	100,000	37,556	4,299,481
2028-2032	3,140,000	562,169	125,000	21,188	3,848,356
2033-2037	2,260,000	138,763	50,175	2,688	2,451,625
	<u>\$ 11,640,000</u>	<u>\$ 2,914,444</u>	<u>\$ 375,175</u>	<u>\$ 110,338</u>	<u>\$ 15,039,956</u>

Notes Payable	Governmental Activities		Business Activities		Total
	Principal	Interest	Principal	Interest	
2018	\$ -	\$ -	\$ 294,553	\$ 10,453	\$ 305,006

Defeasance of Debt

In September 2016 the Town issued \$1,390,000 General Obligation Refunding Bonds, Series 2016. Total proceeds received from this bond issuance was \$1,433,942 and was used as follows: (1) \$1,381,870 paid to escrow agent to refund \$1,350,000 of Series 2005 bonds; (2) \$52,072 was paid in bond issuance costs; and (3) \$43,942 was received as a premium from the sale of the bonds.

The advanced refunding was undertaken to reduce total debt service payments by \$183,933 and resulted in an economic gain (difference between present value of debt service payments of old debt and new debt) of approximately \$177,938. The refunded bonds are considered to be legally defeased and the liability for the refunded bonds has been removed from long-term debt.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

6. Upper Trinity Regional Water District (District) Treated Water System Additional Participating Customer Contract

On December 2, 2010, the Town entered into a regional treated water supply contract (as an additional participating customer) in order to provide treated water service to the Town residents in the future. The Town entered into a long term contractual obligation with the Upper Trinity Regional Water District for the purpose of providing funds for the construction and maintenance of a transmission water pipeline that will provide water to participating towns and cities (participating customers). The Town is required to pay the cost of any extension from the water system to the mutually agreed point of delivery for service. The Town will own and operate water pumping, storage and distribution and render retail service within the Town's service area.

Each participating customer is required to make payments to Upper Trinity Regional Water District equivalent to their portion of the regional treated water system project (currently projected at 30% of the total obligation for Northlake) to cover the Town's portion of the cost of the obligation. The Town will be responsible to pay an annual payment for its share of the total amount of money required for the District to pay all operation and maintenance expenses of the System (the project or regional treated water system), and to pay the capital (bond service) component of the annual requirement including debt service on its bonds. Initially, payment for demand shall be based on the minimum demand under a take or pay for the initial demand, plus any future increases in demand requested or experienced by the Town.

The agreement requires the use of a water year of June 1 of each calendar year through May 31 of the next following calendar year and requires that approximately sixty days after the end of each annual payment period, the Town shall furnish in writing to the District service information for the water year. The Town paid a \$288,000 security deposit to the Upper Trinity Regional Water District upon execution of the agreement. The payment represents an estimate of two years of the Town's portion of the annual debt service requirements. The security deposit can be returned to the Town as early as three years from the start of the agreement if certain conditions are met. There are several fees and charges associated with the water contract such as equity fee, subscription fee, and volume charges. In addition, the Town financed the payment of a \$60,000 equity fee over 60 months (see Footnote 5 – Note Payable). As of September 30, 2017, this note payable was paid off.

7. Fund Balances

In accordance with GASBS No. 54, the Town classifies its fund equity into five categories:

- Non-spendable fund balance includes amounts that are not in a spendable form or are required to be maintained intact.
- Restricted fund balance includes amounts that are constrained to specific purposes by their providers or by enabling legislations.
- Committed fund balance includes amounts which are constrained to specific purposes by the government itself, using its highest level of decision-making. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- Assigned fund balance includes amounts a government intends to use for a specific purpose. Intent can be expressed by the governing body or by an official or body to which the governing body delegates.
- Unassigned fund balance includes amounts that are available for any purpose. Unassigned fund balances are only reported in the general fund.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

7. Fund Balances (continued)

The Town's highest level of decision-making authority is governed by the Town Council. Passage of a resolution would be required to establish, modify, or rescind a fund balance commitment. The Town Council has the authority to assign amounts to specific purposes. The Town 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 in 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 expenditure.

8. Interfund Transfers and Balances

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

Transfer to	Transfer from	Amount
General Fund	Water and Sewer Fund	\$ 150,000
General Fund	4A Fund	25,000
General Fund	4B Fund	25,000
		<u>200,000</u>
Debt Service Fund	General Fund	50,000
Building Fund	General Fund	383,352
Building Fund	Hotel Motel Fund	1,739
Building Fund	4A Fund	1,739
Building Fund	4B Fund	1,739
Building Fund	Water and Sewer Fund	22,262
Capital Projects Fund	Debt Service Fund	6,685,000
Equipment Service Fund	Debt Service Fund	305,000
Technology Services Fund	General Fund	100,000
Equipment Service Fund	General Fund	135,000
Equipment Service Fund	Water and Sewer Fund	125,000
		<u>\$ 7,810,831</u>

Due to/from are primarily related to short term loans to cover temporary cash shortages. There were no such arrangements at September 30, 2017.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

9. Defined Benefit Pension Plan

Plan Description

The Town 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.tmr.com.

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

Plan provisions for the Town were as follows:

	<u>Plan Year 2017</u>
Employee deposit rate	7%
Matching ratio (Town to Employee)	2 to 1
Years required for vesting	5 yrs
Retirement Eligibility (Age/Service)	60/5, 0/25
Updated Service Credit	100% Repeating Transfers
Annuity to Increase (to retirees)	0% of CPI
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

Benefits Provided (continued)

Employees covered by benefit terms

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

	2016
Inactive employees or beneficiaries currently receiving benefits	4
Inactive employees entitled to but not yet receiving benefits	19
Active employees	27
Total	50

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the town matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the town. Under the state law governing TMRS, the contribution rate for each town 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 Town were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Town were 9.09% and 9.58% in calendar years 2016 and 2017, respectively. The town's contributions to TMRS for the year ended September, 30 2017, were \$173,585, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions

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

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

Net Pension Liability (continued)

Actuarial assumptions

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% 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 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.

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). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

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

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

Net Pension Liability (continued)

Discount Rate

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

Changes in the Net Pension Liability

Changes in the net pension liability for the Town are summarized in the following table:

	Changes in the Net Pension Liability		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2015	\$ 1,964,940	\$ 1,626,539	\$ 338,401
Changes for the year:			
Service cost	256,814	-	256,814
Interest	140,867	-	140,867
Changes in current period benefits	-	-	-
Difference between expected and actual experience	62,182	-	62,182
Changes in assumptions	-	-	-
Contributions - employer	-	147,406	(147,406)
Contributions - employee	-	114,649	(114,649)
Net investment income	-	110,118	(110,118)
Benefit payments, including refunds of employee contributions	(12,871)	(12,871)	-
Administrative expense	-	(1,241)	1,241
Other changes	-	(67)	67
Net changes	446,992	357,994	88,998
Balance at 12/31/2016	<u>\$ 2,411,932</u>	<u>\$ 1,984,533</u>	<u>\$ 427,399</u>

The following presents the net pension liability of the Town, calculated using the discount rate of 6.75%, as well as what the Town'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:

	Sensitivity of the Net Pension Liability to Changes in the Discount Rate		
	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
	\$	\$	\$
Town's net pension liability	884,541	427,399	60,303

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.tmr.com.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

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

For the fiscal year ended September 30, 2017, the Town recognized pension expense of \$231,157 and the calculation of the expense is summarized in the following table:

Schedule of Pension Expense	
Total service cost	\$ 256,814
Interest on the total pension liability	140,867
Changes in current period benefits	-
Employee contributions (reduction of expense)	(114,649)
Projected earnings on plan investments (reduction of expense)	(109,791)
Administrative expense	1,241
Other changes in fiduciary net position	67
Recognition of current year outflow (inflow) of resources - liabilities	11,064
Recognition of current year outflow (inflow) of resources - assets	(65)
Amortization of prior year outflows (inflows) of resources - liabilities	23,248
Amortization of prior year outflows (inflows) of resources - assets	22,361
Total pension expense	\$ 231,157

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

	Schedule of Deferred Outflows and Inflows of Resources			
	Deferred Outflows of Resources	Deferred Inflows of Resources	2016 Recognized in Current Pension Expense	Deferred (Inflow)/Outflow infuture expense
Differences between expected and actual economic experience	\$ 62,182	\$ -	\$ 11,064	\$ 51,118
Changes in actuarial assumptions	-	-	-	-
Difference between projected and actual investment earnings	(327)	-	(65)	(262)
Contributions subsequent to the measurement date	-	-	-	-
Total	\$ 61,855	\$ -	\$ 10,999	\$ 50,856

\$50,856 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	Amount
2017	\$ 56,608
2018	56,607
2019	51,004
2020	14,867
2021	6,862
Thereafter	-
Total	\$ 185,948

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

11. Tax Abatements

Tax Increment Reinvestment Zone Number Two

On April 23, 2015, the Town designated a certain area as a reinvestment zone for commercial/industrial tax abatement in the Town, to be known as Reinvestment Zone No. 2, Town of Northlake Texas.

Reinvestment zone with Farmer Bros. Co.

Abatement is equal to the taxes assess on 85% of the value of Farmer Bros. Co's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2017 was \$0.

Reinvestment zone with SH114/IH35W Ventures, Ltd.

Abatement is equal to the taxes assess on 75% of increased value of the property and improvements. The improvements are estimated to be \$25,000,000. The abatement period is from January 1, 2017 to December 31, 2026. On September 14, 2016 the Real Property Tax Abatement Agreement was assigned to Farmer Bros. Co., a Delaware corporation qualified to do business in Texas. Farmer Bros. Co. is the sole party to the assigned contract. The total amount of taxes abated during the year ended September 30, 2017 was \$0.

Tax Increment Reinvestment Zone Number Three

On January 14, 2016, the Town designated a certain area as a reinvestment zone for commercial/industrial tax abatement in the Town, to be known as Reinvestment Zone No. 3, Town of Northlake Texas

Reinvestment zone with Westco Aircraft Hardware Corp.

Abatement is equal to the taxes assess on 75% of the value of Westco Aircraft Hardware Corp's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2017 was \$0.

Reinvestment zone with Hempel USA, Inc.

Abatement is equal to the taxes assess on 75% of the value of Hempel's tangible business personal property, as defined by the Denton Central Appraisal District. The abatement period is from January 1, 2017 to December 31, 2026. The total amount of taxes abated during the year ended September 30, 2017 was \$0.

12. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for with the Town carries commercial insurance.

The Town had no significant changes in insurance coverage from the year ended September 30, 2017. Settlement amounts have not exceeded insurance coverage for the year ended September 30, 2017 or any of the three preceding years.

Town of Northlake, Texas
Notes to Basic Financial Statements
September 30, 2017

13. Contingent Liabilities

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

14. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through February 5, 2018, the date the financial statements were available to be issued.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

**TOWN OF NORTHLAKE, TEXAS
COMBINATION TAX AND LIMITED SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$11,395,000

AS BOND COUNSEL for the Town of Northlake, Texas (the "Issuer"), the issuer of the above-described obligations (the "Certificates"), we have examined into the legality and validity of the Certificates, which bear interest from the dates specified in the text of the Certificates, at the rates and payable on the dates as stated in the text of the Certificates, maturing, unless redeemed prior to maturity in accordance with the terms of the Certificates, all in accordance with the terms and conditions stated in the text of the Certificates.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Certificates, including one of the executed Certificates (Certificate Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been authorized and issued and the Certificates delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Certificates issued in exchange therefore will have been duly delivered, in accordance with law, and that the Certificates, except as may be limited by laws applicable to the Issuer relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding special obligations of the Issuer, and that ad valorem taxes sufficient to provide for the payment of the interest, if any, on and principal of the Certificates have been levied and pledged for such purpose, within the limits prescribed by law, and that the Certificates are additionally secured by and payable from a pledge of the revenues of the Issuer's combined Waterworks and Sewer System remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve and other requirements in connection with all of the Issuer's revenue obligations (now or hereafter outstanding), which are payable from all or part of said revenues, all as provided in the ordinance adopted by the Town Council of the Issuer, pursuant to which the Certificates have been issued.



IT IS FURTHER OUR OPINION that, except as discussed below, the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given 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 Issuer as the taxpayer. We observe that the Issuer has covenanted 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.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer



for the sole purpose of rendering our opinions with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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Financial Advisory Services
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